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Top Executive Compensation 1986 Edition

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The Conference Board



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The Conference Board, Inc.

845 Third Avenue
New York, New York 10022
(212) 759-0900
RCA International Telex
237282 and 234465

The Conference Board, Inc.

Avenue Louise, 207 - Bte 5
B-1050 Brussels, Belgium
(02) 640 62 40
Telex: 63635

The Conference Board, Inc.

1755 Massachusetts Avenue, N.W.
Suite 312
Washington, D.C. 20036
(202) 483-0580

The Conference Board of Canada

255 Smyth Road
Ottawa, Ontario K1H 8M7
(613) 526-3280

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Top Executive Compensation 1986 Edition

(Data for this survey were collected in 1985 based on 1984 fiscal year corporate reports.)

by Harland Fox
and Charles A. Peck

A Research Report from The Conference Board

Contents

	<i>Page</i>
HIGHLIGHTS	v
WHY THIS REPORT	vii
1. INTRODUCTION AND SUMMARY	1
Pay Trends	1
1984 Annual Bonus Awards	2
Restricted Stock Plans	2
Long-term Performance Plans	3
Stock Option Plans	4
1984 Grants and Gain at Exercise	4
Stock-for-Stock Exercise	5
Stock Appreciation Rights	5
Executive Pay and Company Size	6
Executive Pay Differentials	6
2. MANUFACTURING—SUMMARY	8
Pay Trends	8
1984 Total Compensation	9
1984 Salary	10
1984 Bonus Awards	11
Restricted Stock Plans	12
Long-term Performance Plans	12
Stock Option Plans	13
3. MANUFACTURING—INDIVIDUAL INDUSTRIES	15
Food and Kindred Products	15
Textiles	18
Paper and Allied Products	21
Printing and Publishing	24
Industrial Chemicals	27
Consumer Chemicals	30
Stone, Clay, Glass and Concrete Products	33
Primary Metals	36
Fabricated Metal Products (except Machinery and Transportation Equipment)	39
Machinery (except Electrical)	42
Electrical and Electronic Machinery, Equipment and Supplies	45
Transportation Equipment	48
Instruments	51

4. RETAIL TRADE	54
Pay Trends	54
1984 Total Compensation	55
1984 Salary	56
1984 Bonus Awards	56
Long-term Incentive Plans	57
5. GAS AND ELECTRIC UTILITIES	59
Pay Trends	59
1984 Total Compensation	60
1984 Salary	61
1984 Bonus Awards	61
Long-term Incentive Plans	62
6. COMMERCIAL BANKING	63
Pay Trends	63
1984 Total Compensation	64
1984 Salary	65
1984 Bonus Awards	65
Long-term Incentive Plans	67
7. INSURANCE	69
Pay Trends	69
1984 Total Compensation	70
1984 Salary	71
1984 Bonus Awards	72
Long-term Incentive Plans	73
8. CONSTRUCTION	75
Pay Trends	75
1984 Total Compensation	76
1984 Salary	77
1984 Bonus Awards	78
Long-term Incentive Plans	79

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tist. Assistance with data analysis was provided by Maryland Hudson.

Highlights

This report is primarily an analysis of the 1984 compensation of the five highest paid executives in each of 1,010 companies in six major types of business: manufacturing (475 companies), construction (67 companies), gas and electric utilities (97 companies), retail trade (68 companies), commercial banks (171 companies), and insurance (132 companies). The major focus is on 1984 total cash compensation and its two elements, base salary and bonus awards. Using this report, a company can compare the 1984 compensation of its top-paid executives with their counterparts in companies of similar size and type of business.

The report also describes the incidence of, and trends in, four important elements of the executive compensation package: annual bonus plans, long-term performance plans, stock option plans, and restricted stock. For stock options, the size of option grants during 1984 is shown, as well as the net gain for options exercised during 1984. For restricted stock plans, the size of grants during 1984 is described and the size of payouts during 1984 is given for long-term performance plans.

Pay Trends

Compared to 1983, 1984 total compensation (which includes bonus awards) was up by 14 percent in banking, by 11 percent in manufacturing and utilities, by 10 percent in insurance, by 8 percent in retail trade, and by 7 percent in construction.

In manufacturing, banking and construction a larger proportion of companies paid an annual bonus, and the bonus, as a percentage of salary, was generally higher than in 1983. Although there were slightly fewer bonuses paid in gas and electric utilities than in 1983, the average award was higher as a percentage of salary. In insurance and retail trade, fewer bonuses were paid and, overall, those paid were smaller than in 1983.

In each type of business, base salaries were higher than in 1983. The median increase in gas and electric utilities was 11 percent; retail trade and insurance, 10 percent; banks, 9 percent; manufacturing, 8 percent; and construction, 5 percent.

Estimates of the average salary increase for exempt employees made in May, 1985, suggest a median increase of 6.0 percent for 1985 and the same for 1986.

Annual Bonus Plans

The increased use of annual bonus plans continues, especially among financial institutions: 81 percent of the banks and 67 percent of the insurance companies now have a plan. Gas and electric utilities, too, have continued to adopt an annual bonus: 36 percent have a plan. Plans are almost universal in manufacturing where 92 percent have a plan, as do 91 percent of the construction companies, and 81 percent of the retailers.

As in prior years, the size of the typical bonus award, as a percentage of salary, is generally lowest among insurance (25 percent for chief executive officers), gas and electric utilities (30 percent for the CEO), and banks (34 percent).

In retail trade, the median bonus award for chief executive officers is 41 percent of base salary; in construction, 45 percent; and in manufacturing, 56 percent. In general, the size of the bonus, as a percent of salary, tends to increase with company size.

Restricted Stock

A significant minority of companies in each type of business have a plan for awards of restricted stock to top executives: manufacturers, 23 percent; publicly held construction companies, 17 percent; retail trade, 13 percent; stock insurance companies, 13 percent; commercial banking, 12 percent; and gas and electric utilities, 5 percent.

Under a restricted stock plan, a company makes an outright award of shares, which are subject to forfeiture until "earned out" over a stipulated period of continued employment, usually three to five years.

During 1984, the median award to 405 executives was the equivalent of 31 percent of salary.

Long-term Performance Plans

Much of the growth in long-term performance share-unit plans has taken place in the last six years, but they still are not very common outside of manufacturing, where 37 percent of the firms now have plans. About 22 percent of the retailers have a plan, 20 percent of the insurance companies and banks, and 18 percent of the utilities and publicly held construction companies.

In these plans, top executives are given a contingent award of performance units at the beginning of a performance period; the final value of these awards is determined by how closely specified corporate financial targets are met during this performance period of the next three, four or five years.

During 1984, the median payout to 541 executives was the equivalent of 26 percent of salary.

Stock Option Plans

Generally, there has been a substantial increase in the proportion of companies with a stock option plan since 1980 in each type of business: 82 percent of manufacturers have a plan, 71 percent of the retailers, 57 percent of the banks, 52 percent of the publicly held construction companies, 50 percent of the stock insurance companies, and 20 percent of the gas and electric utilities.

The majority of companies with a plan provide for the grants of "incentive stock options" (ISO's): 83 to 93 percent of the plans use ISO's, depending on the type of busi-

ness. In most of these companies, nonqualified options are granted as well as ISO's. The nonqualified options, however, are limited to those executives whose award was more than the \$100,000 per-year limit on the value of ISO awards in 50 to 80 percent of the companies, depending on the type of business.

The value of stock option grants made in 1984 to the five top-paid executives as a group, on the average, was the equivalent of 34 to 86 percent of base salary, depending on the type of business. The median net gain for options exercised during 1984 was 37 percent of salary in manufacturing, 29 percent in banks, 27 percent in retail trade, and 17 percent in stock insurance companies.

Stock-for-stock exercise (stock swaps) of options are provided for in 29 to 80 percent of ISO plans, depending on the type of business, and in about the same proportion of nonqualified option plans.

Stock appreciation rights (SAR's) are provided by 30 to 41 percent of the ISO plans, depending on the type of business, and in about the same proportion of nonqualified option plans.

Why This Report

THIS IS the twenty-third edition of The Conference Board's report on top executive pay, but our third *annual* study. Conducting the study annually has created more timely and more valuable information. Continuity and change in executive compensation patterns can be tracked and identified with greater precision. For example, 1984 total compensation reflects both the continued recovery from recession and the prevailing low rate of inflation identified in last year's study. At the same time, the *rate* of increase in base salaries for top executives is higher in 1984 than in 1983—reversing a trend noted for the past several years.

Equally important is the data relating amounts paid in salary, bonus and total compensation to type of industry and company size. With this information, individual companies

can compare the compensation of their top executives with compensation levels in other companies of similar size and business type.

In addition to base salary and annual bonus, this study also reports on the other major elements commonly found in pay packages—including stock options, restricted stock and long-term performance plans. The prevalences of these programs, and their payouts in 1984, are presented both for the entire sample and for specific industry groups.

As always, this study is useful and valuable because of the cooperation of over 1,000 companies that provide data each year. We thank them for contributing to this research.

JAMES T. MILLS
President

Chapter 1

Introduction and Summary

THIS REPORT IS primarily an analysis of the 1984 compensation of the five highest paid executives in each of the companies described in the accompanying box. The major focus is on the basic elements of 1984 cash compensation: base salary and annual cash bonus awards. Total compensation, base salary, and bonus awards for 1984, are compared with 1983 in each type of business.

The report also describes the incidence of and trends in four important elements of the executive compensation package: annual bonus plans, long-term performance plans, stock options (and their associated "stock appreciation rights" and "stock swaps"), and restricted stock. For stock options, the size of option grants during 1984 is shown, as well as the net gain for options exercised during 1984. For restricted stock plans, the size of grants during 1984 are described, and for long-term performance plans, the size of payouts during 1984 are shown.

Pay Trends

Total compensation (which includes bonus awards) was 7 to 14 percent higher than in 1983 for each type of business. This is illustrated below, using the median change for the chief executive officer *position* in companies for which total compensation data were available for both 1984 and 1983. (The individuals were not necessarily the same in both years in all companies.)

Type of Business	Total Compensation Increase		
	1984		1983
	Number of Companies	Median	Median
Commercial banking	128	14%	9%
Manufacturing	388	11	12
Gas and electric utilities . .	77	11	9
Insurance	110	10	6
Retail trade	45	8	11
Construction	47	7	0

When the 1984-1983 change is compared with that for 1983 over 1982, the biggest change was in construction where total compensation increased 7 percent after show-

About the Companies

This study is based on information obtained from 1,010 companies in six major types of business in the United States. These companies represent only specific segments of their respective types of business, however.

- The 475 **manufacturers** include 42 percent of the manufacturers with \$100 million or more in sales whose stock is listed on the New York or the American Stock Exchange.

- The 97 **gas and electric utilities** are 70 percent of all gas and electric utilities whose securities are listed on the New York or American Stock Exchange.

- The 68 **retailers** include 20 percent of approximately all retailers with sales of \$50 million or more.

- The 171 **commercial banks** are 40 percent of approximately all commercial banks with total deposits of \$300 million or more.

- The 132 **insurance companies** are 41 percent of approximately all life insurance and property and casualty insurance companies with total premium income of \$50 million or more.

- The 67 **construction companies** represent 34 percent of the 200 largest contractors: 23 are publicly held and 44 do not have stock traded on an organized exchange.

ing no increase for 1983. Increases for 1984 were higher than those for 1983 among banks, utilities and insurance companies, slightly less in manufacturing and somewhat lower in retail trade.

Some of the increase in total compensation is related to the prevalence of bonus payments. For example, 82 percent of the manufacturers paid a bonus for 1984 compared to 77 percent for 1983. But relatively fewer retail trade firms paid a bonus for 1984 (63 percent) than for 1983 (75 percent).

Type of Business	Number of Companies	Percent That Paid Bonus	
		1984	1983
Manufacturing	475	82%	77%
Commercial banking	171	74	64
Construction	67	70	67
Retail trade	68	63	75
Insurance	132	52	56
Gas and electric utilities . .	97	29	30

In addition to the incidence of bonus payments, the size of the award has an impact on total compensation. As a rule, bonus awards as a percentage of base salary were higher for 1984 than 1983. In trade and insurance, however, awards for chief executive officers, as percentages of salary, were four percentage points lower in 1984 than in 1983.

The other basic element in total compensation is base salary. In each type of business, 1984 salaries were 5 to 11 percent higher than in 1983. This is illustrated below, using the median increase for the chief executive officer position in companies for which salary data were available for both 1984 and 1983. (The same individuals were not necessarily the same in both years in all companies.)

Type of Business	Base Salary Increase		
	1984		1983
	Number of Companies	Median	Median
Gas and electric utilities ..	76	11%	7%
Retail trade	43	10	8
Insurance	110	10	6
Commercial banking	127	9	9
Manufacturing	387	8	7
Construction	46	5	4

Generally, the rate of salary increase is higher for 1984 than 1983, reversing the trend that has been apparent since 1980 and 1981, when comparable median salary increases were 12 to 14 percent in each type of business, in 1982, when increases were 8 to 10 percent and in 1983 when they were 4 to 9 percent.

As an indicator of future salary increases, companies were asked during May, 1985 to provide the expected "average salary increase" for their total exempt population (not just for "executives") for 1985 and 1986. The responses are shown in Table 1.

1984 Annual Bonus Awards

The trend to increased use of annual bonus plans during the 1970's has continued during the past few years. Bonus plans are almost universal in manufacturing and construction and have continued to grow in gas and electric utilities, commercial banking, and insurance, as shown below.

Type of Business	May, 1985		May, 1980
	Total Companies	Percent with Bonus Plan	Percent with Bonus Plan
Manufacturing ..	475	92%	90%
Construction	67	91	89
Retail trade	68	81	81
Commercial banking	171	81	55
Insurance	132	67	52
Gas and electric utilities	97	36	13

The bulk of companies with a bonus plan made an award for 1984 performance, as shown below.

Type of Business	Total Plans	Percent that Paid Bonus	
		1984	1983
Commercial banking	139	91%	79%
Manufacturing	439	88	83
Gas and electric utilities ..	35	80	83
Retail trade	55	78	93
Insurance	88	78	84
Construction	61	77	67

Among the companies that paid a bonus, the size of the award, as a percentage of salary, was higher for 1984 performance than for 1983 except for insurance and retailing as illustrated below for chief executive officers:

Type of Business	Median Award for 1984		
	Number of CEO's	Percentage of Salary	1982 Median
Manufacturing	386	56%	50%
Construction	43	45	43
Retail trade	41	41	45
Commercial banking	125	34	26
Gas and electric utilities	24	30	25
Insurance	70	25	29

Among manufacturers, banks and insurance companies, the bonus awards tend to increase as a percentage of salary as the size of the company increases. In retailing, awards tend to decrease with increases in company sales. (Data were not adequate to check this in construction and utilities.)

Restricted Stock Plans

As shown below, a relatively small group of companies in each major type of business provide for grants of restricted stock. In general, there has been a modest increase except in construction in the use of restricted stock during the past five years!

Type of Business	May, 1985		May, 1980
	Total Companies	Percent with Restricted Stock	Percent with Restricted Stock
Manufacturing	478	21%	18%
Commercial banking ...	203	12	7
Gas and electric utilities	94	6	4
Retail trade	73	21	19
Insurance: stock	70	15	9
Construction: publicly held	21	14	30

¹Top Executive Compensation 1980 Edition. The Conference Board, Report No. 793, 1980.

Table 1: Estimated Average Salary Increase for Exempt Employees: 1985 and 1986

Type of Business	Estimate for 1985			Estimate for 1986		
	Number of Companies	Median	Middle 50 Percent Range	Number of Companies	Median	Middle 50 Percent Range
Commercial banking	161	7.0%	6.0 to 7.5%	118	6.5%	6.0 to 7.0%
Insurance	120	6.5	6.0 to 7.0	85	6.0	6.0 to 7.0
Retail trade	66	6.0	5.0 to 7.0	56	6.0	5.0 to 7.0
Manufacturing	441	6.0	5.5 to 6.9	350	6.0	5.5 to 6.5
Gas and electric utilities	79	6.0	5.0 to 6.5	42	5.5	5.0 to 6.0
Construction	61	5.0	5.0 to 6.5	60	6.0	5.0 to 7.0
Total companies	928	6.0	5.5 to 7.0	711	6.0	5.5 to 7.0

Under a restricted stock plan, a company makes an outright award of shares to participating executives subject to certain restrictions, the most important of which is that shares are subject to forfeiture until they are "earned out" over a stipulated period of continued employment. This vesting period is generally three to five years.²

A small group of companies (101) made restricted stock grants to one or more of their five top-paid executives during 1984. (Included are seventy manufacturers, fifteen banks, six retailers, six stock insurance companies, two utilities and two publicly held construction firms.) The size of the grants for 405 executives, converted to a percentage of their 1984 base salary, is shown below.

Grant as Percentage of Salary	Executives	
	Number	Percentage
200% or more	17	4%
100-199	32	8
80-99	18	4
60-79	33	8
50-59	20	5
40-49	46	11
30-39	46	11
20-29	64	16
10-19	91	23
Less than 10%	38	9
Total	405	100%

The value of the median grant is the equivalent of 31 percent of salary, with the middle half ranging between 17 and 58 percent of 1984 base salary.

Long-term Performance Plans

In recent years, some companies have adopted executive incentive plans in which the payoff is based on the attainment of specified *long-term* corporate financial per-

²For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

formance goals, in contradistinction to the annual bonus plans that are based on a single year's corporate performance. These plans are generally known as performance share, or unit, plans. In these plans, top executives are given a contingent award of company shares or, more commonly, of performance units at the beginning of a performance period. The actual value of the award is determined by how closely specified corporate financial performance objectives (usually growth in earnings per share) are met during the performance period of the next three, four or five years.³

Although the first of these plans was installed in 1971-1972, growth apparently has continued during the last five years, as illustrated below.⁴

Type of Business	May, 1985		May, 1980
	Total Companies	Percent with Performance Plan	Percent with Performance Plan
Manufacturing	475	37%	26%
Retail trade	68	22	11
Commercial banking	171	21	9
Insurance	132	20	8
Gas and electric utilities	97	18	3
Construction	67	13	9

The plans are still not common outside of manufacturing and, in each type of business, they are generally found among the largest companies.

A small group of companies (122) made a payment under this type of plan during 1984 to one or more of their five top-paid executives. (Included are 76 manufacturers, 10 banks, 14 insurance companies, 11 retailers, 9 utilities, and 2 construction companies.) The payments to 541 ex-

³For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

⁴*Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793.

executives are shown below, converted to a percentage of their 1984 base salary.

Payment as Percent of Salary	Executives	
	Number	Percent
100% and over	43	8%
70-99	38	7
60-69	11	2
50-59	27	5
40-49	41	8
30-39	82	15
20-29	110	20
10-19	95	18
Less than 10%	94	17
Total	541	100%

The median payment is the equivalent of 26 percent of 1984 salary, with the middle half ranging between 13 and 44 percent of salary.

Stock Option Plans

By 1980, nonqualified stock option plans were, for all practical purposes, the only type of stock option used. The Tax Reform Act of 1976 did not allow new qualified plans to be adopted after May 21, 1976, and, for plans adopted before this, outstanding options had to be exercised before May 21, 1981. Then the Economic Recovery Tax Act (enacted on August 13, 1981) created a new type of statutory option, the "incentive stock option" (ISO).³

As the tabulation below illustrates, there has been considerable growth in the adoption of stock option plans since 1980.

Type of Business	May, 1984		May, 1980	
	Total Companies	With Stock Option Plan Number Percent	Percent with Nonqualified Option Plan	
Manufacturing . .	478	400 84%	68%	
Retail trade . . .	73	56 77	43	
Construction:				
publicly held .	21	13 62	55	
Commercial				
banking	203	102 50	23	
Insurance: stock	70	30 43	18	
Gas and electric utilities	94	19 20	8	

Generally, the majority of companies with a stock option plan provide for the grant of *both* nonqualified options and ISO's. Relatively few companies have only an ISO plan and fewer still, only a nonqualified plan, as shown here.

³For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Type of Business	Percent of Plans by Type of Options			
	Total Plans	Both ISO and Nonqualified	Only ISO	Only Nonqualified
Gas and electric utilities	19	79%	11%	11%
Manufacturing	387	75	12	13
Commercial				
banking	98	67	24	9
Retail trade	48	60	33	6
Insurance: stock . . .	31	55	36	10
Construction:				
publicly held	12	50	33	17

1984 Grants and Gain at Exercise

Among the companies that have a stock option plan, 33 to 74 percent made a regular grant of options during 1984, as shown below:

Type of Business	Companies with Stock Option Plan		Granted Options in 1984	
	Number	Percent	Number	Percent
Manufacturing	387	256	66%	
Commercial banking . .	98	59	60	
Retail trade	48	27	56	
Insurance: stock	31	16	52	
Gas and electric utilities	19	14	74	
Construction: publicly held	12	4	33	

A sizable proportion of the companies in each type of business granted *both* ISO's and nonqualified options during 1984 (Table 2). However, as shown below, in most cases the nonqualified option was given only to those executives who hit the statutory limit on the size of ISO grants (the value of an individual award cannot exceed \$100,000 per calendar year).

Type of Business	Granted Both ISO's and Nonqualified Options		Nonqualified Only Above ISO Limit	
	Number	Percent	Number	Percent
Manufacturing	145	92	63%	
Commercial banking	33	24	73	
Retail trade	13	9	69	
Insurance: stock	7	5	71	
Gas and electric utilities . .	5	4	80	
Construction: publicly held	2	1	50	

Most of the companies that made a regular grant of options during 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of the option is the number of shares granted multiplied by the market price at the time of grant.) The size of the grants is shown below, converted to a percentage of base salary, for all five top-paid executives combined.

Table 2: 1984 Stock Option Grants by Type of Option

Type of Business	Total Responses	Type of Option Granted					
		Both ISO and Nonqualified		ISO Only		Nonqualified Only	
		Number	Percent	Number	Percent	Number	Percent
Manufacturing	251	145	58%	59	24%	47	19%
Commercial banking	58	33	57	15	26	10	17
Retail trade	16	7	44	7	44	2	13
Insurance: stock	12	5	42	4	33	3	25
Gas and electric utilities	25	13	52	7	28	5	20
Construction: publicly held	4	2	50	1	25	1	25

Table 3: Net Gain on Stock Options Exercised in 1984

Type of Business	Number of Companies	Number of Executives	Gain at Exercise			
			Dollars		Percent of Salary	
			Median	Middle 50 Percent Range	Median	Middle 50 Percent Range
Manufacturing	194	486	\$90,000	\$33,000 to \$229,000	37%	18% to 89%
Retail trade	23	56	88,000	27,000 to 211,000	27	14 to 93
Commercial banking	32	87	54,000	18,000 to 122,000	29	13 to 70
Insurance: stock	10	30	45,000	17,000 to 84,000	17	8 to 39

Type of Business	Number of Executives	Size of Grant (Percent of Salary)	
		Median	Middle 50 Percent Range
Manufacturing	1,170	86%	54% to 137%
Retail trade	95	73	41 to 104
Commercial banking	274	71	43 to 116
Gas and electric utilities	46	71	50 to 115
Insurance: stock	81	49	35 to 80
Construction: publicly held	24	34	21 to 53

One or more of the five top-paid executives in each type of business exercised a stock option (or SAR) during 1984. The net gain realized in cash or stock (market value less option price) is shown in Table 3 in terms of the dollar gain and as a percentage of 1984 base salary.

Stock-for-Stock Exercise

A substantial proportion of the companies that have stock option plans provide for stock-for-stock exercise (stock swaps). This arrangement allows options to be exercised with shares of previously purchased company stock in lieu of cash, a procedure that postpones the taxation of any gain on stock already owned. The proportion of ISO's with this provision is shown here.

Type of Business	ISO Plans	With Stock Swap	
Manufacturing	337	251	75%
Commercial banking	89	47	53
Retail trade	45	21	47
Insurance: stock	28	8	29
Gas and electric utilities	17	10	59
Construction: publicly held	10	8	80

The proportion of nonqualified option plans that provide for stock swaps is essentially the same as for ISO plans:

Type of Business	Nonqualified Options	With Stock Swap	
Manufacturing	340	241	71%
Commercial banking	75	38	51
Retail trade	32	16	50
Insurance: stock	20	7	35
Gas and electric utilities	17	11	65
Construction: publicly held	8	5	63

Stock Appreciation Rights

A substantial proportion of the companies also attach stock appreciation rights (SAR's) to the option. The SAR allows an executive to relinquish the option and receive an amount equal to the appreciation in the stock since the date of grant. The gain is taxed as ordinary income at the time

it is received. Under an ISO, an executive could otherwise exercise the option without tax at the time, but the SAR allows the executive to take the gain without borrowing money to take the option.

The prevalence of an SAR among ISO plans is shown below:

Type of Business	ISO	With SAR	
	Plans	Number	Percent
Manufacturing	337	123	37%
Commercial banking	89	32	36
Retail trade	45	16	36
Insurance: stock	28	9	32
Gas and electric utilities	17	7	41
Construction: publicly held	10	3	30

In most plans, the SAR is not given to all ISO recipients; rather, SAR's are limited to options granted to a small group of top executives (often, "insiders"). For example, 68 percent of the ISO plans in manufacturing that grant SAR's limit them to a small group. (This apparently is true in other types of business, but the number of cases is too small to judge.)

Generally, a slightly higher proportion of companies that have nonqualified stock option plans attach SAR's to the options, as shown here.

Type of Business	Nonqualified	With SAR	
	Options	Number	Percent
Manufacturing	340	176	52%
Commercial banking	75	38	51
Retail trade	32	15	47
Insurance: stock	20	5	25
Gas and electric utilities	17	9	53
Construction: publicly held	8	3	38

Again, the SAR is not given to all nonqualified option recipients. For example, among the manufacturers, 78 percent of the nonqualified plans with SAR's limit the SAR to a small group of top executives.

Executive Pay and Company Size

As a rule, top executives in larger companies are paid more than their counterparts in smaller companies. It is generally accepted that this is a cause-and-effect relationship. The chief executive officer of a large company is paid more than a CEO in a small company in part because the job is more difficult and demanding.

In this study, major emphasis is given to this relationship between top executive pay and the size of the company. For example, the total compensation (base salary plus bonus award) of the chief executive officers in each type of business is shown on a chart similar to Exhibit 1 on page 7.

•Each circle on a chart shows the total compensation paid to the chief executive officer by a single company. Those executives whose total compensation includes a bonus award are differentiated by a circle (O).

•The regression line on a chart measures the general relationship between total compensation and company size. The line can be used to determine average compensation of chief executives at any level of company size by taking a direct reading from the chart, or by using the formula given for each line.

Although total compensation and company size are highly related, company size obviously is not the sole determinant of top-executive compensation. To underline this point, the "coefficient of determination" is given for each regression line. This is the ratio of the variation in total compensation explained by the regression line to the total variation in pay. (The square root of this coefficient is the more familiar correlation coefficient.)

As the tabulation below, using pay of the CEO, indicates, this coefficient of determination varies considerably from one type of business to another. For example, for the relatively small construction companies whose stock is not traded, only 12 percent of the variation in total compensation of chief executive officers is accounted for by the variation in company size, and only 28 percent in the few companies (23) whose stock is traded. But for most types of business, at least half of the variation in chief executive pay, whether total compensation or base salary, is statistically explained by the variations in company size.

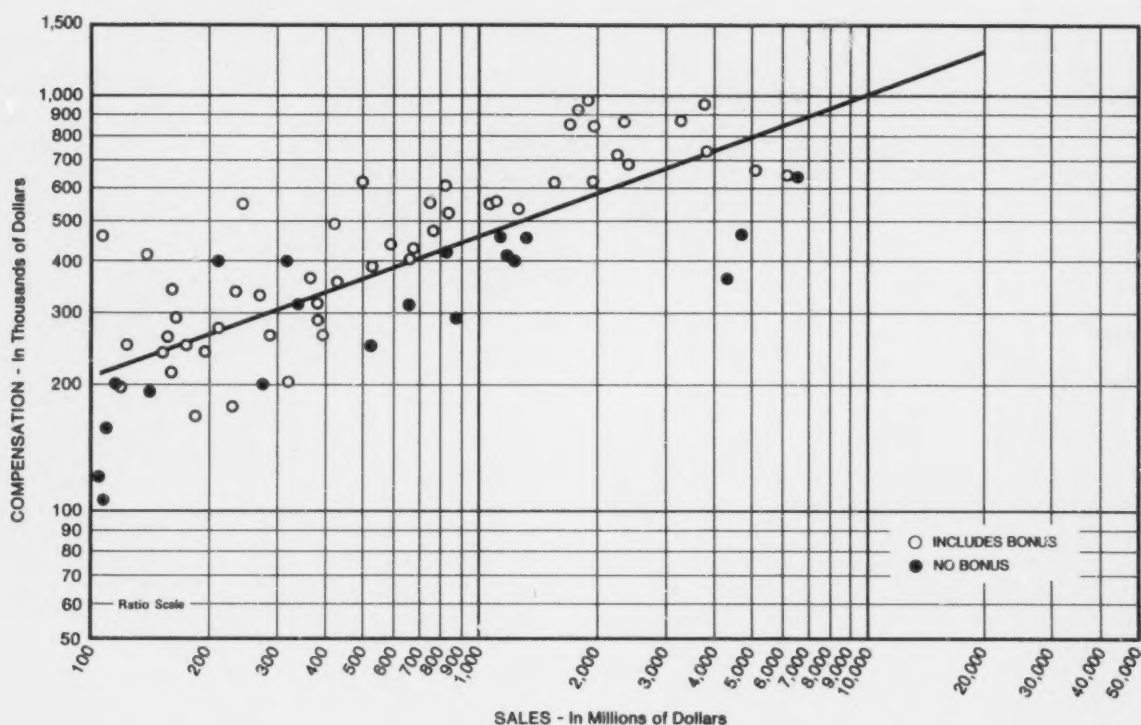
Type of Business	Coefficient of Determination	
	Total Compensation	Base Salary
Life insurance	75%	73%
Property and casualty insurance	73	68
Gas and electric utilities	66	72
Commercial banking	64	62
Manufacturing	63	68
Retail trade	49	48
Construction: publicly held	28	15
Construction: closely held	12	25

It might be noted that the coefficients of determination are generally somewhat higher for the other four executives; that is, their pay is more influenced by company size. Generally, the coefficients are 4 to 12 percentage points higher than that of the CEO, depending on the type of business.

Executive Pay Differentials

Although average pay levels for each of the five top-paid executives vary considerably from one type of business to another, the relationships among the pay of the five executives differ very little among the major types of business. For example, the second highest paid executive typically

Exhibit 1: Compensation of the Chief Executive, by Company Sales



receives 58 to 77 percent of the chief executive's total compensation, as the tabulation below illustrates.

Type of Business	Median Ratio: Total Compensation as a Percentage of CEO Total Compensation			
	Second highest	Third highest	Fourth highest	Fifth highest
Construction	77%	61%	55%	47%
Retail trade	72	59	48	43
Manufacturing	68	53	47	42
Commercial banking	68	52	45	41
Insurance	67	54	47	44
Gas and electric utilities .	58	54	50	44

Salary ratios among the five top-paid are essentially the same as total compensation ratios:

Type of Business	Median Ratio: Salary as a Percentage of CEO Salary			
	Second highest	Third highest	Fourth highest	Fifth highest
Construction	79%	66%	59%	53%
Retail trade	74	61	52	44
Commercial banking	70	54	47	43
Manufacturing	69	55	49	44
Insurance	68	55	50	45
Gas and electric utilities .	68	54	50	45

Chapter 2

Manufacturing—Summary

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 475 manufacturers, 42 percent of the manufacturers with \$100 million or more in sales whose stock is listed on the New York or American Stock Exchange. These 475 manufacturers are classified below on the basis of 1984 sales volume.

1984 Sales	Companies	
	Number	Percent
\$5 billion and over	61	13%
2-4,999 billion	83	17
1-1,999 billion	74	16
500-999 million	86	18
300-499 million	60	13
200-299 million	48	10
100-199 million	63	13
Total	475	100%

Median sales for the group is \$814 million, with the middle half ranging between \$323 million and \$2.8 billion.

Pay Trends

On the average, total compensation for 1984 (which includes bonus awards) was about 11 percent greater than in 1983 for top executives in these manufacturing industries. For example, in a sample of 388 chief executive officers for whom total compensation for both 1983 and 1984 was available, the median change in total compensation was 11 percent, with the middle half ranging from an increase of one percent to 26 percent.

For 20 percent of these chief executive officer positions, total compensation for 1984 was lower than for 1983 and another 5 percent registered no gain. Among the 75 percent that show an increase, the median increase is 16 percent, with the middle half ranging between 9 and 32 percent.

Some of the increase in total compensation is the result of increased bonus payments. For example, 88 percent of the manufacturers with a bonus plan paid a bonus for 1984

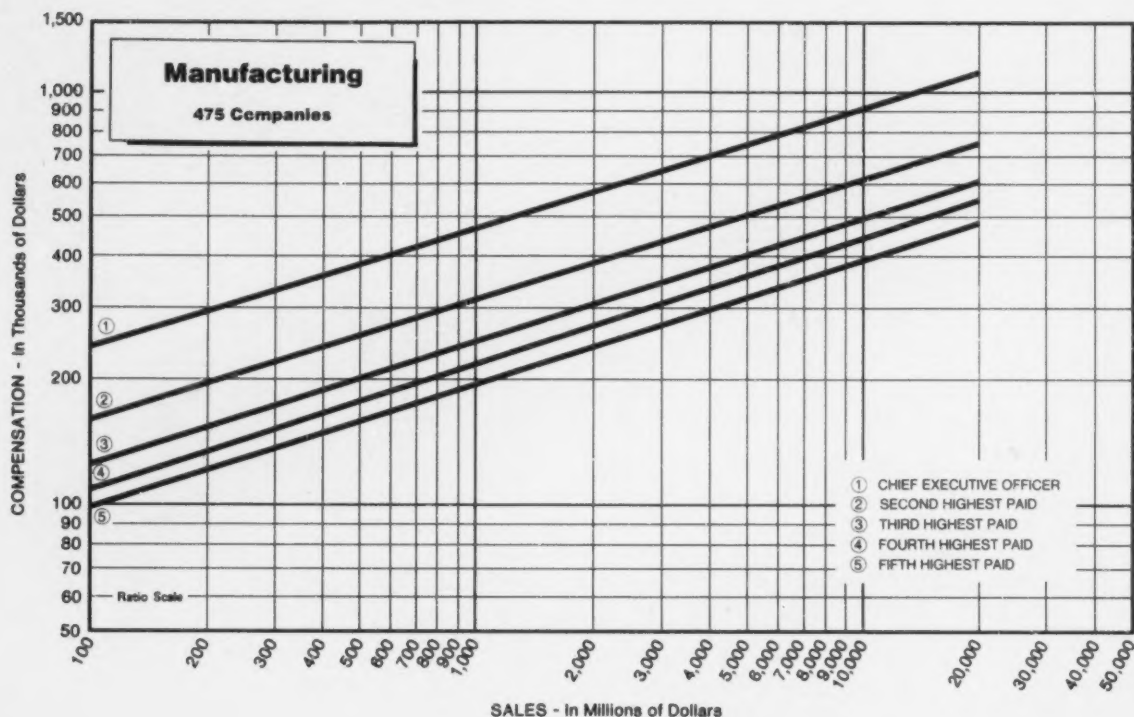
performance, while 83 percent did so for 1983 performance. In addition, bonus payments, as a percentage of base salary, were higher. For example, the median bonus for chief executive officers represented 56 percent of salary for 1984, and 50 percent of salary for 1983 performance. Finally, among companies that paid a bonus for both 1984 and 1983, the median dollar increase for chief executive officers was 16 percent, with the middle half ranging between no increase and a 50 percent increase. Among the 73 percent that got a larger bonus, the median increase was 27 percent, with the middle half ranging between 13 and 70 percent.

Total compensation also increased because of increases in base salary. For example, among the 387 companies for which both 1984 and 1983 base salary were available, the median increase for the chief executive position was 8 percent with the middle half ranging between a two percent, and a 13 percent increase. For 10 percent of these chief executive positions, salary was lower in 1984 than in 1983, and for 14 percent it was unchanged. Among the 76 percent that received an increase, the median is 10 percent, with the middle half between 7 and 15 percent.

As indicated below, the 8 percent increase for 1984 reverses the drop in the rate of salary increase for top executives during the last few years.¹ Apparently this will not continue in the near future, according to estimates obtained from 441 manufacturers about their 1985 average salary increase for their entire exempt population. The median estimated increase was 6.0 percent, with the middle half ranging between 5.5 and 6.9 percent. This same pattern of

¹The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 48. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14. The 1975-1977 changes are from *Top Executive Compensation 1978 Edition*. The Conference Board, Report No. 753, 1978, p. 18.

Chart 1: Compensation of the Five Highest Paid Executives, by Company Sales



increases was predicted for 1986 by the 350 companies that provided an estimate for the exempt population for 1986.

Year	Number of Companies	Percentage Increase in Salary	
		Median	Middle 50 Percent Range
Total Exempt Employees			
1986 Estimate . . .	350	6.0%	5.5% to 6.5%
1985 Estimate . . .	441	6.0	5.5 to 6.9
Chief Executive Officers			
1984	387	8	2 to 13
1983	375	7	0 to 13
1981-1982	392	9	0 to 15
1979-1981	323	24	16 to 33
1977-1979	388	20	10 to 29
1975-1977	549	20	11 to 28

1984 Total Compensation

For each manufacturer, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The median and middle 50-percent range of the total compensation of the chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$452,000	\$325,000 to \$679,000
Second	300,000	208,000 to 450,000
Third	240,000	170,000 to 358,000
Fourth	210,000	150,000 to 306,000
Fifth	184,000	132,000 to 283,000

As the lines in Chart 1 suggest, there is a positive relationship between the level of total compensation and sales volume for all five executives. The correlation coefficients for the five lines are, respectively: .79, .80, .81, .83, and .84.

The regression lines on the chart can be used to determine the average compensation of an executive at any level of sales, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands of dollars*, and X is sales volume stated in *millions of dollars*.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.7966 + 0.2917 \log X$	63%
Second	$\log Y = 1.6066 + 0.2956 \log X$	64
Third	$\log Y = 1.5099 + 0.2953 \log X$	66
Fourth	$\log Y = 1.4526 + 0.2945 \log X$	69
Fifth	$\log Y = 1.3694 + 0.3057 \log X$	71

Although total compensation and sales are highly related, company size is not the sole determinant of compensation level. As the "coefficients of determination" (r²) above indicate, the variation in sales statistically explains 63 to 71 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The tabulation below of the total compensation of chief executive officers indicates that this coefficient of determination varies considerably among the 13 specific industries.

Industry	Coefficient of Determination (Chief Executive Officers)
Electrical machinery	80%
Transportation equipment	75
Industrial chemicals	73
Stone, clay and glass	70
Instruments	70
Consumer chemicals	65
All Manufacturers	63%
Printing and publishing	60
Machinery	59
Primary metals	59
Food	57
Fabricated metals	57
Paper	52
Textiles	52

As a rule, the coefficient of determination is higher for the other four executives.

There are substantial differences in the average total compensation of each of the five top-paid executives from one industry to another, even when sales volume is taken into consideration. This is illustrated in the tabulation below, which shows average total compensation of chief executive officers, by industry, at sales of \$814 million, the median sales volume for all manufacturers.

Industry	Total Compensation (Chief Executive Officers)
Consumer chemicals	\$530,000
Printing and publishing	505,000
Transportation equipment	504,000
Instruments	466,000
Textiles	463,000
Fabricated metals	462,000
Paper	446,000
Electrical machinery	445,000
All Manufacturers	442,000
Machinery	441,000
Industrial chemicals	437,000
Stone, clay and glass	429,000
Food	404,000
Primary metals	393,000

The highest industry average above is 35 percent greater than the lowest; in 1983 this spread was 39 percent and in 1982, 44 percent.

The ratio of the total compensation of each executive to that of the CEO is shown below:

Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	68%	58% to 78%
Third highest	53	46 to 62
Fourth highest	47	40 to 54
Fifth highest	42	35 to 49

1984 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is sales stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.7701 + 0.2477 \log X$	68%
Second	$\log Y = 1.5851 + 0.2535 \log X$	67
Third	$\log Y = 1.4647 + 0.2610 \log X$	69
Fourth	$\log Y = 1.4427 + 0.2513 \log X$	70
Fifth	$\log Y = 1.3833 + 0.2574 \log X$	72

As the coefficients of determination (r²) above indicate, the variation in sales volume statistically explains 67 to 72 percent of the variation in base salary.

The coefficient of determination varies considerably for the base salary of CEO's among 13 specific manufacturing industries:

Industry	Coefficient of Determination (Chief Executive Officers)
Electrical machinery	81%
Industrial chemicals	81
Instruments	75
Printing and publishing	74
Food	74
Primary metals	71
All Manufacturers	68
Machinery	67
Textiles	67
Consumer chemicals	66
Fabricated metals	60
Stone, clay and glass	60
Transportation equipment	57
Paper	50

There is relatively little difference in average base salary of each of the five top-paid executives from one industry to another, when sales volume is taken into consideration.

This is illustrated below using the average salary of chief executive officers in each industry at sales of \$814 million, the median sales volume of all manufacturers. (These averages are derived from the regression equations for each industry.) The highest average base salary is only 21 percent greater than the lowest.

Industry	Base Salary (Chief Executive Officers)
Consumer chemicals	\$349,000
Instruments	343,000
Printing and publishing	339,000
Fabricated metals	330,000
Textiles	323,000
Stone, clay and glass	322,000
Transportation equipment	322,000
Machinery	315,000
Paper	312,000
All Manufacturers	310,000
Industrial chemicals	303,000
Electrical machinery	301,000
Primary metals	298,000
Food	288,000

The ratio of the salary of each of the other top-paid executives to the salary of the chief executive officer is shown below.

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	69%	60% to 78%
Third highest	55	48 to 63
Fourth highest	49	42 to 56
Fifth highest	44	38 to 50

These ratios are practically the same as the total compensation ratios.

1984 Bonus Awards

Ninety-two percent (439) of the 475 manufacturers have an "annual" executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. The incidence of these plans varies somewhat from industry to industry, but at least 76 percent of the companies in any manufacturing industry have a plan.

There is no consistent relationship between company size and the prevalence of these plans: Better than 90 percent of the companies at any sales level have a plan.

There has been considerable growth in the prevalence of these plans over the last decade. In 1974, 75 percent of a comparable group of manufacturers reported an annual bonus plan.² By 1980, 90 percent did so.³

²Top Executive Compensation 1974 Edition (out of print). The Conference Board, Report No. 640, 1974, p. 9.

³Top Executive Compensation 1980 Edition, p. 11.

Among the 439 manufacturers with a bonus plan, 88 percent (388) made an award for 1984 performance; 83 percent paid a bonus for 1983. Among the 388 companies that paid a 1984 bonus, 348 also paid a 1983 bonus, but 40 did not. Among the 51 companies that paid no bonus for 1984, 18 paid a 1983 bonus; 23 paid no bonus in either year, and 10 did not respond.

By and large, the proportion of companies in the specific manufacturing industries that paid a bonus for 1984 performance is equal to or larger than the percentage that paid a 1983 bonus, as shown below.

Industry	Total with Bonus	Paid Bonus for 1984		Paid Bonus for 1983
	Plan	Number	Percent	Percent
Fabricated metals	19	19	100%	100%
Printing and publishing	13	13	100	100
Transportation equipment	28	27	96	96
Consumer chemicals	22	21	95	95
Industrial chemicals	41	39	95	98
Paper	16	15	94	94
Instruments	24	22	92	92
Textiles	21	19	91	81
Food	45	40	89	89
All Manufacturers	439	388	88	83
Electrical machinery	38	33	87	79
Stone, clay and glass	23	18	78	74
Machinery	66	50	76	70
Primary metals	29	22	76	52

As Table 4, page 12 indicates, the median award for CEO's (56 percent of salary) is somewhat higher than that for the other four executives (50 to 40 percent of salary). Compared to bonus awards for 1983, the 1984 medians are 2 to 6 percentage points higher.⁴

For each of the five executives the bonus award as a percentage of salary increases with company size (Table 5, p. 13).⁵ Again, the 1984 awards at each size level are higher than in 1983.⁶

⁴Top Executive Compensation 1985 Edition, p. 12.

⁵Data are derived from regression equations based on the pay of executives in 361 companies with a bonus plan that paid a bonus. The equations are shown below; the coefficients of determination is in parentheses.

Total Compensation

Highest paid	$\log Y = 1.8419 + 0.2746 \log X$	(65%)
Second	$\log Y = 1.6489 + 0.2803 \log X$	(64%)
Third	$\log Y = 1.5391 + 0.2851 \log X$	(66%)
Fourth	$\log Y = 1.4513 + 0.2935 \log X$	(70%)
Fifth	$\log Y = 1.3730 + 0.3016 \log X$	(71%)

Base Salary

Highest paid	$\log Y = 1.7399 + 0.2469 \log X$	(66%)
Second	$\log Y = 1.5871 + 0.2444 \log X$	(63%)
Third	$\log Y = 1.4831 + 0.2503 \log X$	(68%)
Fourth	$\log Y = 1.4111 + 0.2543 \log X$	(70%)
Fifth	$\log Y = 1.3467 + 0.2616 \log X$	(70%)

⁶Top Executive Compensation 1985 Edition, p. 13.

Table 4: 1984 Bonus Awards and 1983 Median Bonus

1984 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% or more	40	10%	29	7%	29	7%	22	6%	23	6%
90-99	15	4	10	3	8	2	10	3	6	2
80-89	22	6	12	3	11	3	13	3	9	2
70-79	43	11	39	10	30	8	20	5	23	6
60-69	55	14	37	9	44	11	41	10	29	7
50-59	47	12	68	17	55	14	57	14	43	11
40-49	51	13	70	18	71	18	67	17	70	18
30-39	42	11	44	11	70	18	69	17	72	18
20-29	39	10	43	11	39	10	49	12	58	15
10-19	20	5	30	8	33	8	43	11	41	10
Less than 10%	12	3	11	3	10	3	9	2	18	5
Total	386	100%	393	100%	400	100%	400	100%	392	100%
Median Bonus	56%		50%		46%		43%		40%	
Middle 50% Range	37-75%		34-68%		32-64%		29-60%		27-58%	
1983 Median Bonus	50%		46%		42%		41%		37%	

Restricted Stock Plans

Twenty-three percent (109) of the manufacturers have a restricted stock plan under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. The use of restricted stock has increased somewhat in the past four years; 18 percent (83) of a comparable group of (470) manufacturers reported a plan in 1980.⁷

The prevalence of these plans is not related to company size, but it varies somewhat among the 13 specific manufacturing industries, as shown below:

Industry	Total Companies	With Restricted Stock Plan	
		Number	Percent
Consumer chemicals	22	8	36%
Industrial chemicals	45	15	33
Instruments	27	8	30
Machinery	72	18	25
All Manufacturers	475	109	23
Food	48	11	23
Printing and publishing	16	3	19
Textiles	22	4	18
Stone, clay and glass	24	4	17
Electrical machinery	38	6	16
Fabricated metals	21	3	14
Transportation equipment	30	4	13
Paper	21	2	10
Primary metals	30	3	10

Over half (70) of the companies made an award during

⁷Top Executive Compensation 1980 Edition, p. 14. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 139, 1984.

1984. The awards for 280 executives are shown below, converted to a percentage of their 1984 base salary.

Award as Percent of Salary	Executives	
	Number	Percent
200% or more	17	6%
100-199	23	8
80-99	15	5
60-79	22	8
50-59	14	5
40-49	29	10
30-39	35	13
20-29	48	17
10-19%	64	23
Less than 10%	13	5
Total	280	100%

The median award is the equivalent of 34 percent of 1984 salary, with the middle half ranging between 18 and 64 percent of salary. The median award for chief executive officers, 39 percent of salary, is higher than the second highest paid (38 percent), the fourth highest paid (24 percent), the third highest paid (30 percent), and the fifth highest paid (30 percent).

Long-term Performance Plans

Thirty-seven percent (174) of the 475 manufacturers have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a performance share or unit plan.⁸ This compares with 25 percent of 470 manufacturers that reported a plan in 1980.⁹

⁸For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

⁹Top Executive Compensation 1980 Edition, p. 12.

Table 5: 1984 and 1983 Bonus Awards (as Percent of Salary), by Company Size

Executive	Sales Volume		
	\$323 Million	\$814 Million	\$2.8 Billion
Chief Executive			
1984 Bonus (%)	51%	56%	62%
Salary	\$246,000	\$308,000	\$415,000
1983 Bonus (%)	48%	52%	57%
Second Highest Paid			
1984 Bonus (%)	45%	50%	56%
Salary	\$167,000	\$210,000	\$284,000
1983 Bonus (%)	42%	46%	52%
Third Highest Paid			
1984 Bonus (%)	46%	49%	54%
Salary	\$132,000	\$168,000	\$230,000
1983 Bonus (%)	39%	44%	50%
Fourth Highest Paid			
1984 Bonus (%)	40%	46%	52%
Salary	\$119,000	\$149,000	\$201,000
1983 Bonus (%)	38%	42%	50%
Fifth Highest Paid			
1984 Bonus (%)	36%	42%	50%
Salary	\$107,000	\$135,000	\$184,000
1983 Bonus (%)	34%	38%	44%

These plans are most common among larger companies. For example, 60 percent of the manufacturers with \$3 billion or more in sales have a plan compared with 40 percent with sales in the \$500 million to \$3 billion range, and 17 percent of the companies with sales in the \$100 million to \$500 million range.

The prevalence of these plans also varies considerably among the specific industries, as shown below:

Industry	Total Companies	With Long-term Performance Plan	
		Number	Percent
Stone, clay and glass	24	14	58%
Industrial chemicals	45	21	47
Printing and publishing	16	7	44
Fabricated metals	21	9	43
Food	48	20	42
Electrical machinery	38	14	37
All Manufacturers	475	174	37
Machinery	72	25	35
Instruments	27	9	33
Paper	21	7	33
Transportation equipment	30	8	27
Consumer chemicals	22	5	23
Textiles	22	4	18
Primary metals	30	5	17

Seventy-six companies made a payment during 1984 to one or more of their five top-paid executives under this plan. Payments for 340 executives are shown below, converted to a percentage of their 1984 base salaries.

Payment as Percent of Salary	Executives	
	Number	Percent
100% and over	32	9%
70-99	28	8
60-69	8	2
50-59	18	5
40-49	27	8
30-39	57	17
20-29	78	23
10-19	54	16
Less than 10	38	11
Total	340	100%

The median payment is the equivalent of 30 percent of 1984 salary, with the middle half ranging between 17 and 50 percent of salary. The median payment to chief executive officers, 32 percent of salary, is slightly lower than that of the second (33 percent), but higher than the third (31 percent), fourth (30 percent), and fifth highest paid (26 percent).

Stock Option Plans

Eighty-two percent (387) of the 475 manufacturers have a stock option plan.¹⁰ The incidence of stock option plans varies somewhat among the specific manufacturing industries, but at least 63 percent of the companies in each industry has a plan, as shown below:

Industry	Total Companies	With Stock Option	
		Number	Percent
Transportation equipment	30	29	97%
Electrical equipment	38	36	95
Stone, clay and glass	24	22	92
Consumer chemicals	22	19	86
Machinery	72	62	86
Instruments	27	23	85
All Manufacturers	475	387	82
Paper	21	17	81
Primary metals	30	23	77
Industrial chemicals	45	34	76
Fabricated metals	21	16	76
Food	48	34	71
Textiles	22	14	64
Printing and publishing	16	10	63

Three-quarters (290) of the companies with a plan provide for grants of *both* incentive stock options (ISO's) and nonqualified options; 12 percent (45) grant only ISO's, 13 percent (50) only nonqualified options, and two did not respond.

Two-thirds (256) of the 387 companies with a plan made a regular grant of stock options during 1984. Twenty-four percent of the companies granted *only* ISO's; 19 percent

¹⁰For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

only nonqualified options; and 58 percent granted both ISO's and nonqualified options. Among the 145 plans that granted both ISO's and nonqualified options, 92 (63 percent) limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

Most of the manufacturers that granted options in 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The size of the options for 1,170 executives is shown below, converted to a percentage of 1984 base salary.

Value at Grant (Percent of Salary)	Executives	
	Number	Percent
400% or more	39	3%
300-399	28	2
200-299	84	7
150-199	94	8
100-149	253	22
75-99	185	16
50-74	239	20
25-49	181	16
Less than 25%	67	6
Total	1,170	100%

The median value of the option grant for these executives is 86 percent of base salary, with the middle half ranging between 54 and 137 percent of salary. The median grant to the chief executive officer (98 percent of salary) is somewhat higher than that for the second highest paid (91 percent), the third highest paid (86 percent), the fourth highest paid (84 percent) and the fifth highest paid (80 percent).

One or more of the five top-paid executives in 194 companies exercised a stock option (or SAR) during 1984. The net gain realized in cash or stock (market value less option price) for 486 executives is shown below, converted to a percentage of 1984 base salary.

Gain at Exercise (Percent of Salary)	Executives	
	Number	Percent
400-816%	17	4%
300-399	12	3
200-299	29	6
150-199	15	3
100-149	31	6
75-99	43	9
50-74	48	10
25-49	122	25
15-24	68	14
Less than 15%	101	21
Total	486	100%

The median gain at exercise is equivalent to 37 percent of 1984 salary, with the middle half ranging between 18 and 89 percent of salary. For chief executive officers, the median is 44 percent; for the second highest paid, 35 percent; for the third, 33 percent; for the fourth, 38 percent; and for the fifth highest paid, 35 percent.

The actual dollar gain for these executives at the time of exercise is shown here.

Dollar Gain at Exercise	Executives	
	Number	Percent
\$1 million and over	27	6%
500,000 to 999,000	32	7
300,000 to 499,000	39	8
250,000 to 299,000	17	3
200,000 to 249,000	19	4
150,000 to 199,000	35	7
100,000 to 149,000	57	12
75,000 to 99,000	35	7
50,000 to 74,000	56	12
25,000 to 49,000	83	17
Less than \$25,000	86	18
Total	486	100%

The median gain is \$90,000, with the middle half ranging between \$33,000 and \$229,000. For the chief executive officers, the median is \$180,000; for the second highest paid, \$91,000; for the third, \$67,000; for the fourth, \$86,000; and for the fifth highest paid, \$61,000.

Stock-for-stock exercise (stock swaps) are provided for by 75 percent (251) of the 337 companies that grant ISO's and by 71 percent (241) of the 340 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 37 percent (123) of the 337 plans that grant ISO's. Most plans, 68 percent, limit SAR's to a small group of top management (essentially, "insiders"); the other 32 percent grant SAR's to all ISO recipients.

SAR's are provided by 52 percent (176) of the 340 plans that grant nonqualified options. Most plans (78 percent) limit SAR's to a small group of top management; the other 22 percent grant SAR's to all nonqualified option recipients.

Chapter 3

Manufacturing—Individual Industries

Food and Kindred Products

This industry includes manufacturers and processors of food and beverages for human consumption, and related products such as confections, fats and oils, and animal feeds. (SIC: 20)

The Companies

Executive compensation data for this industry were obtained from 48 companies, classified below according to 1984 sales volume. The smallest company had sales of \$108 million; the largest, \$12.9 billion.

1984 Sales	Number of Companies	
\$5 billion and over	8	Median Sales:
\$2–4,999 billion	12	\$1.5 billion
\$1–1,999 billion	9	
500–999 million	7	Middle 50 percent:
200–499 million	7	\$432 million to
100–199 million	5	\$4.1 billion
Total	48	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 48 companies is plotted in Chart 2. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$423,000	\$313,000 to \$792,000
Second	285,000	223,000 to 438,000
Third	238,000	163,000 to 388,000
Fourth	217,000	141,000 to 340,000
Fifth	185,000	119,000 to 300,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	65%	57% to 75%
Third highest	51	45 to 57
Fourth highest	45	38 to 51
Fifth highest	42	33 to 48

As the lines on Chart 3 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.6838 + 0.3171 \log X$	57%
Second	$\log Y = 1.5280 + 0.3071 \log X$	55
Third	$\log Y = 1.4055 + 0.3149 \log X$	57
Fourth	$\log Y = 1.3346 + 0.3191 \log X$	61
Fifth	$\log Y = 1.2964 + 0.3158 \log X$	60

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Chart 2: Compensation of the Chief Executive, by Company Sales

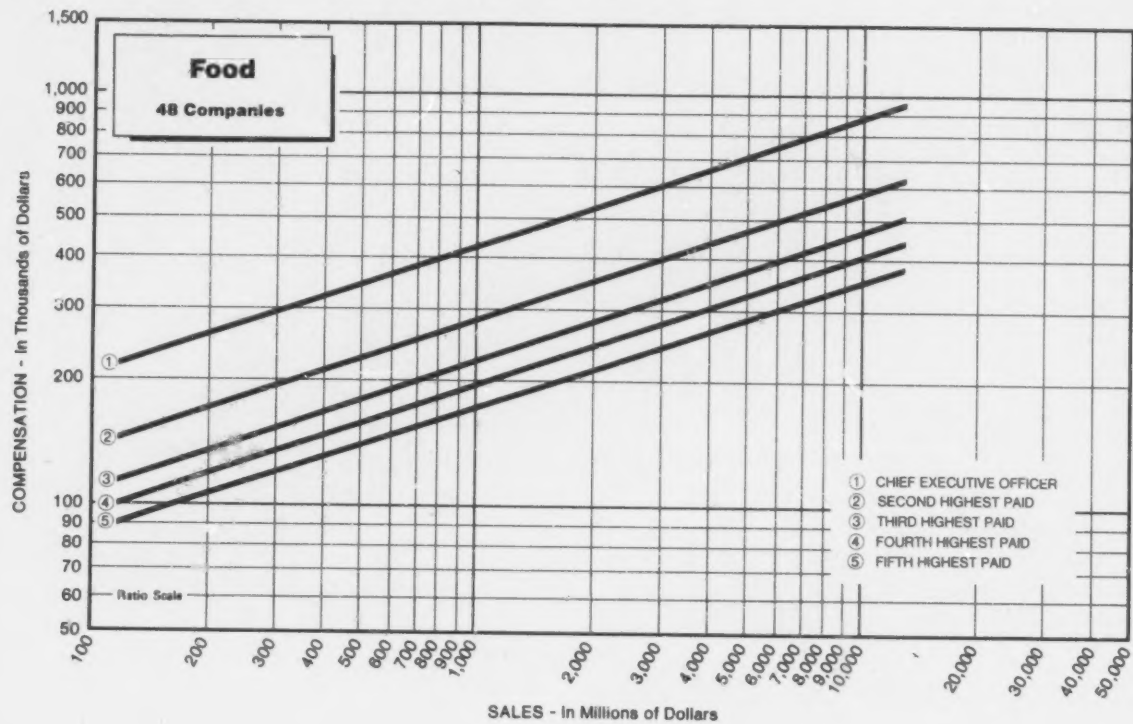
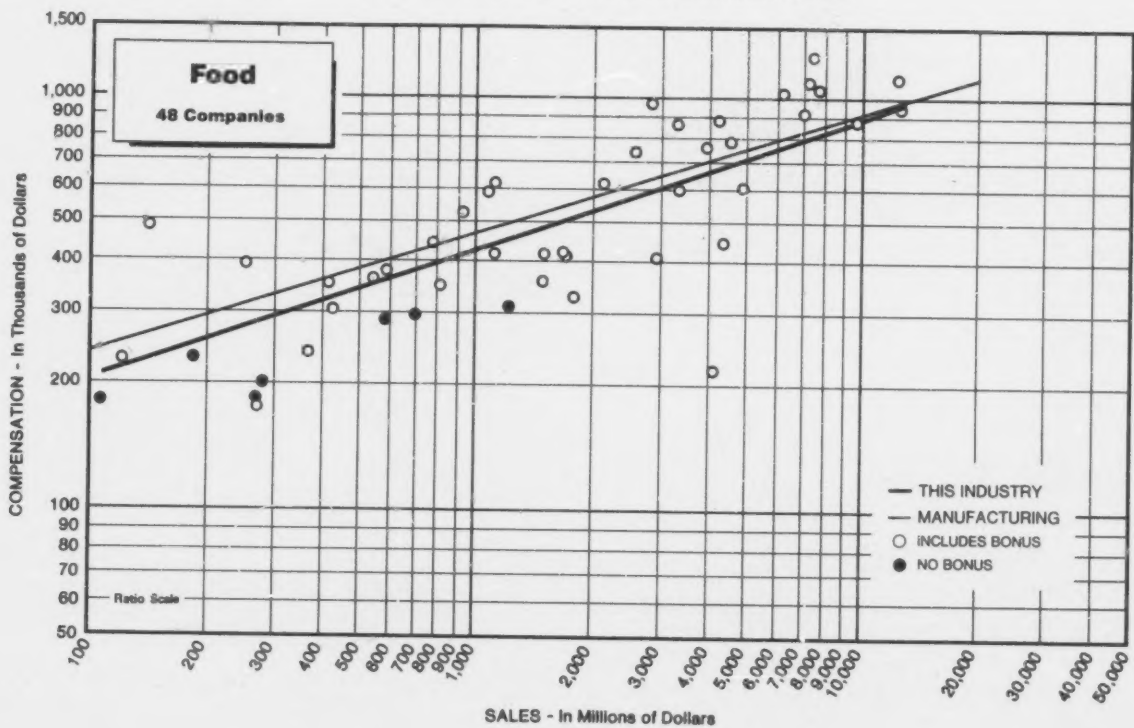


Chart 3: Compensation of the Five Highest Paid Executives, by Company Sales



Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r ²
Highest paid . . .	$\log Y = 1.7255 + 0.2519 \log X$	74%
Second	$\log Y = 1.5266 + 0.2598 \log X$	65
Third	$\log Y = 1.3467 + 0.2878 \log X$	71
Fourth	$\log Y = 1.3353 + 0.2746 \log X$	73
Fifth	$\log Y = 1.3060 + 0.2719 \log X$	71

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Forty-five (94 percent) of the 48 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Forty (89 percent) of these companies made a bonus award for 1984 performance; all also paid a bonus for 1983.

Twenty (43 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 13.)

Eleven (16 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Thirty-four (71 percent) of the companies have a **stock option plan**. Twenty-three of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's, six only nonqualified options and two did not respond. (For an analysis of the size of grants and value at exercise during 1984, see page 14.)

Stock-for-stock exercise (stock swaps) are provided for by 22 (85 percent) of the 26 companies that grant ISO's, and by 21 (72 percent) of the 29 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by eleven (42 percent) of the 26 companies that grant ISO's. SAR's are provided by 18 (62 percent) of the 29 companies that grant nonqualified options.

Textiles

This industry includes companies engaged in manufacturing apparel and accessories and textile fabrics. (SIC:22 and 23)

The Companies

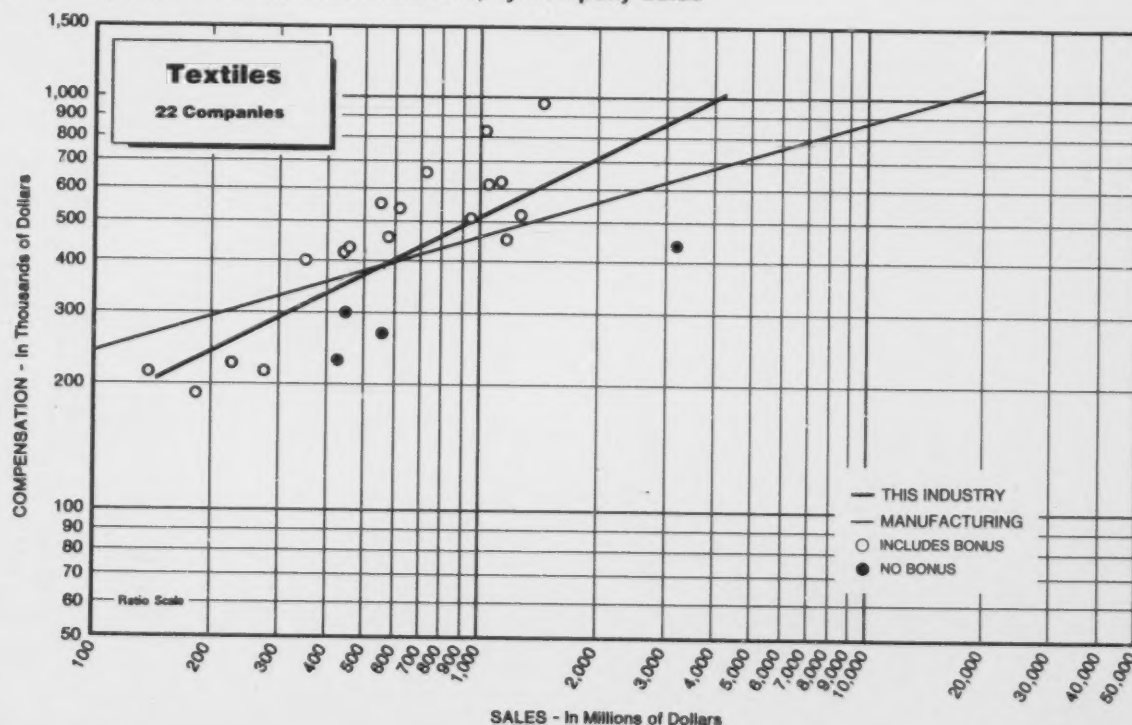
Executive compensation data for this industry were obtained from 22 companies, classified below according to 1984 sales volume. The smallest company had sales of \$149 million; the largest, \$3.2 billion.

1984 Sales	Number of Companies	
\$1 billion and over	7	Median Sales:
500-999 million	6	\$575 million
300-499 million	5	
100-299 million	4	Middle 50 percent:
		\$429 million to
		\$1.1 billion
Total	22	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

Chart 4: Compensation of the Chief Executive, by Company Sales



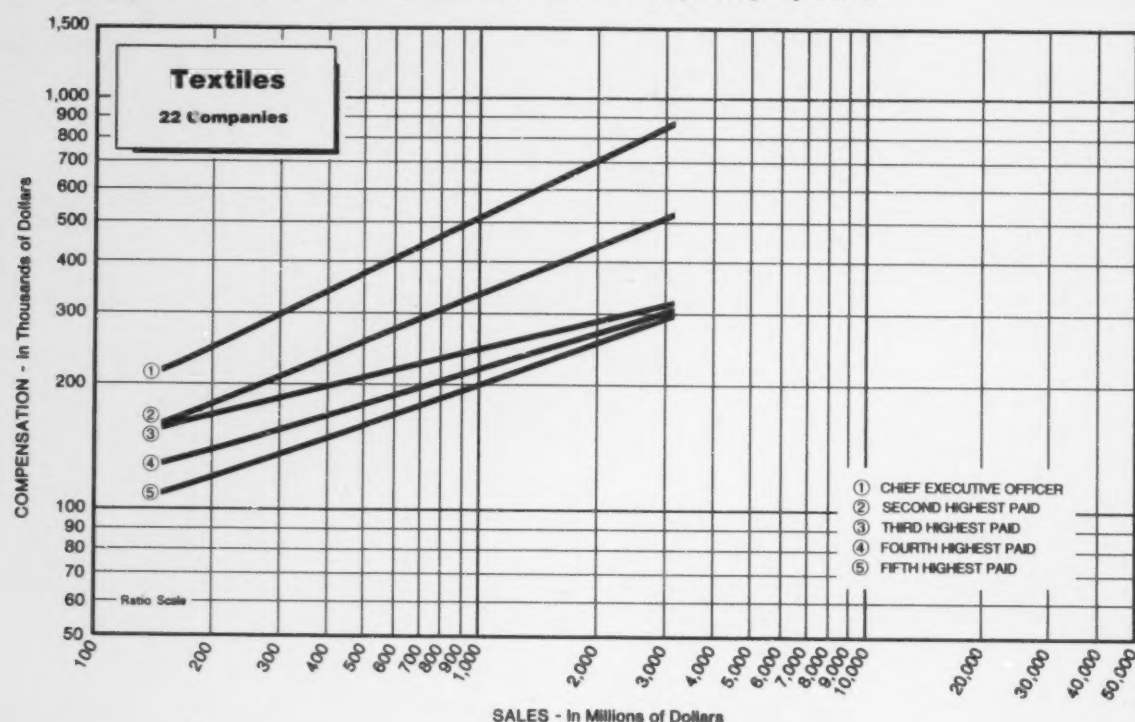
The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 22 companies is plotted in Chart 4. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$424,000	\$275,000 to \$533,000
Second	285,000	199,000 to 373,000
Third	235,000	182,000 to 295,000
Fourth	196,000	171,000 to 240,000
Fifth	180,000	129,000 to 215,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	72%	58% to 82%
Third highest	56	40 to 67
Fourth highest	49	35 to 59
Fifth highest	42	34 to 50

Chart 5: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 5 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.3640 + 0.4472 \log X$	52%
Second	$\log Y = 1.3857 + 0.3796 \log X$	41
Third	$\log Y = 1.7159 + 0.2243 \log X$	25
Fourth	$\log Y = 1.4979 + 0.2804 \log X$	32
Fifth	$\log Y = 1.3081 + 0.3312 \log X$	41

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.1624 + 0.4626 \log X$	67%
Second	$\log Y = 1.1836 + 0.3993 \log X$	59
Third	$\log Y = 1.4536 + 0.2621 \log X$	38
Fourth	$\log Y = 1.2543 + 0.3153 \log X$	37
Fifth	$\log Y = 0.9996 + 0.3942 \log X$	50

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-one (96 percent) of the 22 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Nineteen (91 percent) of these companies made a bonus award for 1984 performance; most (17) also paid a bonus for 1983.

Four (18 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 11.)

Four (18 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Fourteen (64 percent) of the companies have a **stock option plan**. Seven of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's and four only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by nine of the ten companies that grant ISO's, and by seven of the 11 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the ten companies that grant ISO's. SAR's are provided by three of the 11 companies that grant nonqualified options.

Paper and Allied Products

This industry includes manufacturers and processors of paper, paperboard and pulp; and converted products such as bags, boxes and envelopes. (SIC: 26)

The Companies

Executive compensation data for this industry were obtained from 21 companies, classified below according to 1984 sales volume. The smallest company had sales of \$214 million; the largest, \$5.1 billion.

1984 Sales	Number of Companies	
\$2 billion and over	7	Median Sales:
\$1-1,999 billion	3	\$994 million
500-999 million	6	Middle 50 percent:
100-499 million	5	\$592 million to
Total	21	\$2.3 billion

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 21 companies is plotted in Chart 6. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$515,000	\$400,000 to \$650,000
Second	353,000	267,000 to 441,000
Third	263,000	203,000 to 327,000
Fourth	241,000	170,000 to 294,000
Fifth	202,000	157,000 to 263,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	69%	60% to 74%
Third highest	53	44 to 60
Fourth highest	45	40 to 53
Fifth highest	42	36 to 47

Chart 6: Compensation of the Chief Executive, by Company Sales

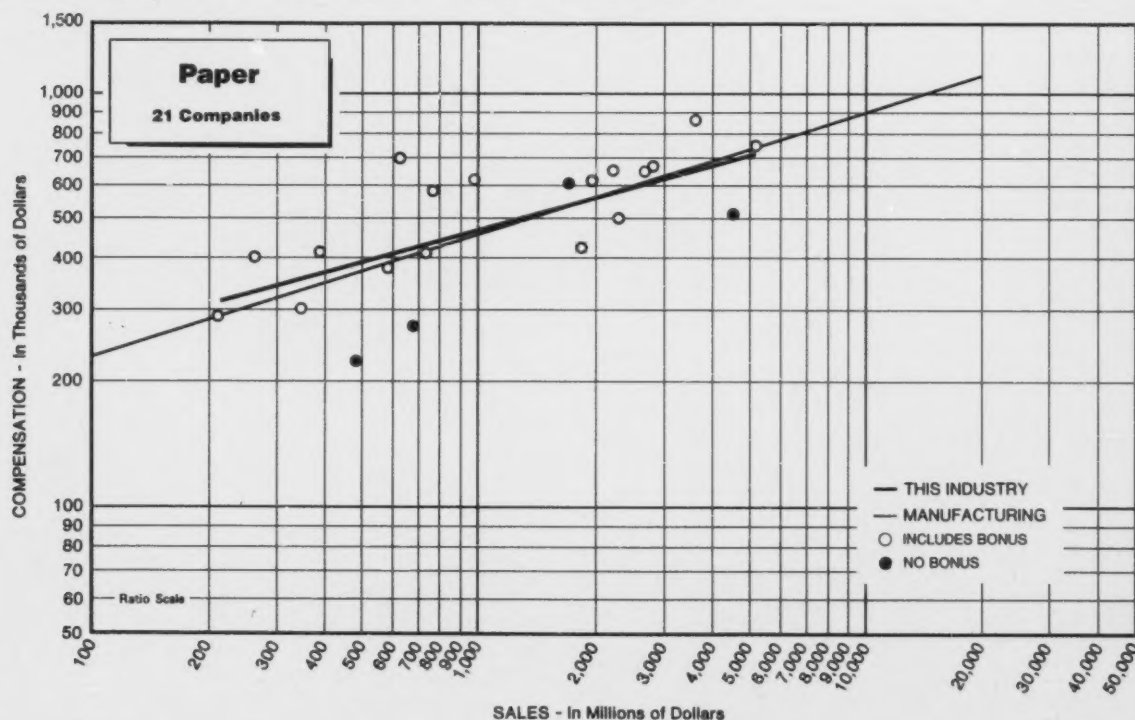
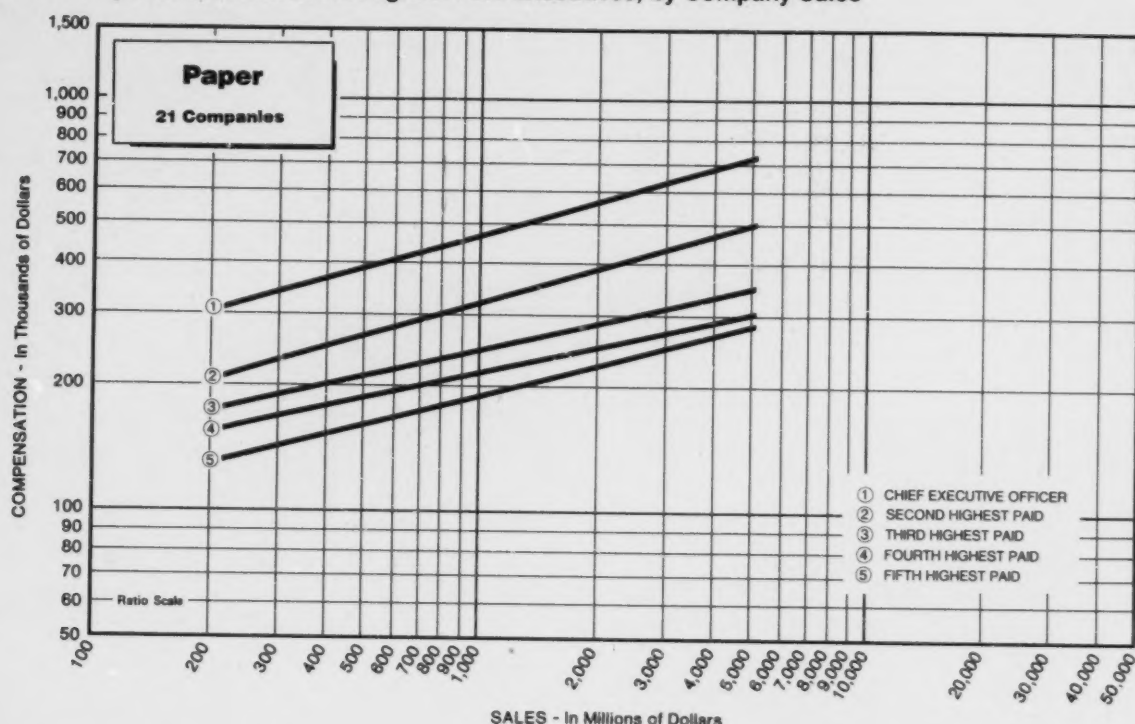


Chart 7: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 7 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.8503 + 0.2744 \log X$	52%
Second	$\log Y = 1.6556 + 0.2831 \log X$	51
Third	$\log Y = 1.7586 + 0.2376 \log X$	28
Fourth	$\log Y = 1.6990 + 0.2127 \log X$	31
Fifth	$\log Y = 1.5195 + 0.2180 \log X$	40

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.8317 + 0.2274 \log X$	50%
Second	$\log Y = 1.4859 + 0.2864 \log X$	59
Third	$\log Y = 1.5675 + 0.2225 \log X$	43
Fourth	$\log Y = 1.5703 + 0.2066 \log X$	41
Fifth	$\log Y = 1.3159 + 0.2734 \log X$	72

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Sixteen (76 percent) of the 21 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Fifteen of these companies made a bonus award for 1984 performance; fourteen also paid a bonus for 1983; only one company did not.

Seven (33 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Two (10 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Seventeen (81 percent) of the companies have a **stock option plan**. Thirteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's, and one only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for

by 13 of the 16 companies that grant ISO's, and by ten of the 14 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven

(44 percent) of the 16 companies that grant ISO's. SAR's are provided by ten (71 percent) of the 14 companies that grant nonqualified options.

Printing and Publishing

This industry includes companies engaged in printing by one or more of the common processes and companies engaged in publishing newspapers, books and periodicals. (SIC: 27)

The Companies

Executive compensation data for this industry were obtained from 16 companies, classified below according to 1984 sales volume. The smallest company had sales of \$271 million; the largest, \$3.1 billion.

1984 Sales	Number of Companies	
\$1 billion and over	6	Median Sales:
500-999 million	4	\$548 million
300-499 million	4	Middle 50 percent:
100-299 million	2	\$413 million to
		\$1.4 billion
Total	16	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 16 companies is plotted in Chart 8. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$527,000	\$320,000 to \$565,000
Second	288,000	217,000 to 488,000
Third	280,000	166,000 to 376,000
Fourth	240,000	137,000 to 340,000
Fifth	210,000	132,000 to 297,000

Chart 8: Compensation of the Chief Executive, by Company Sales

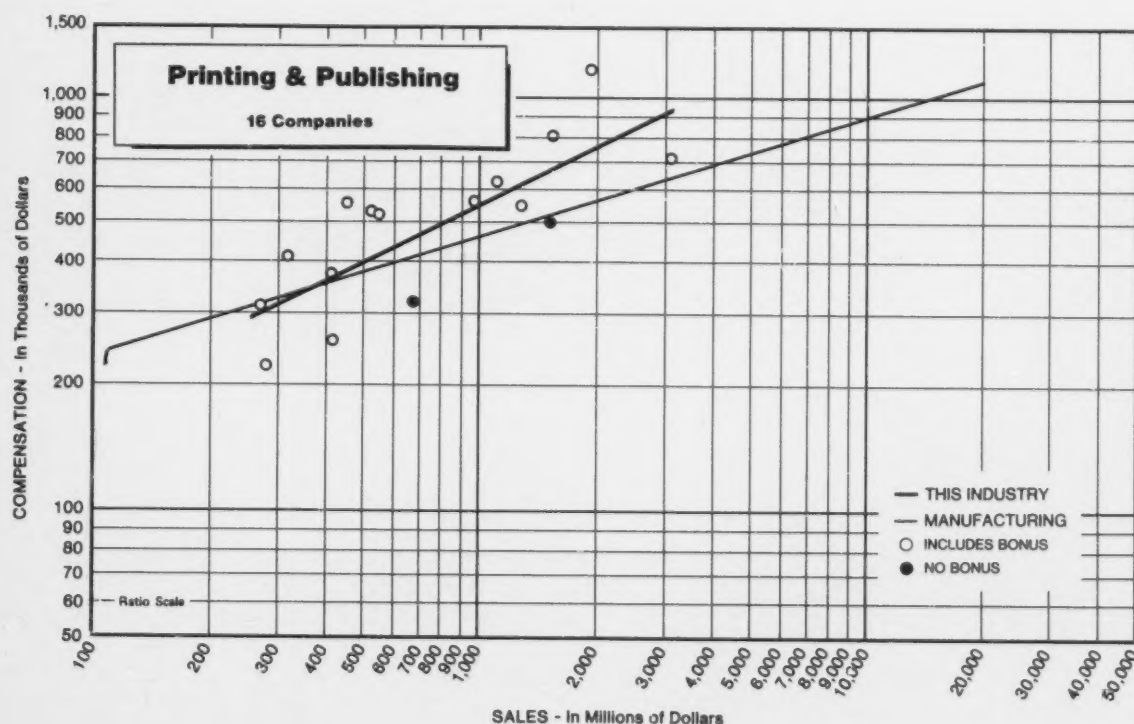
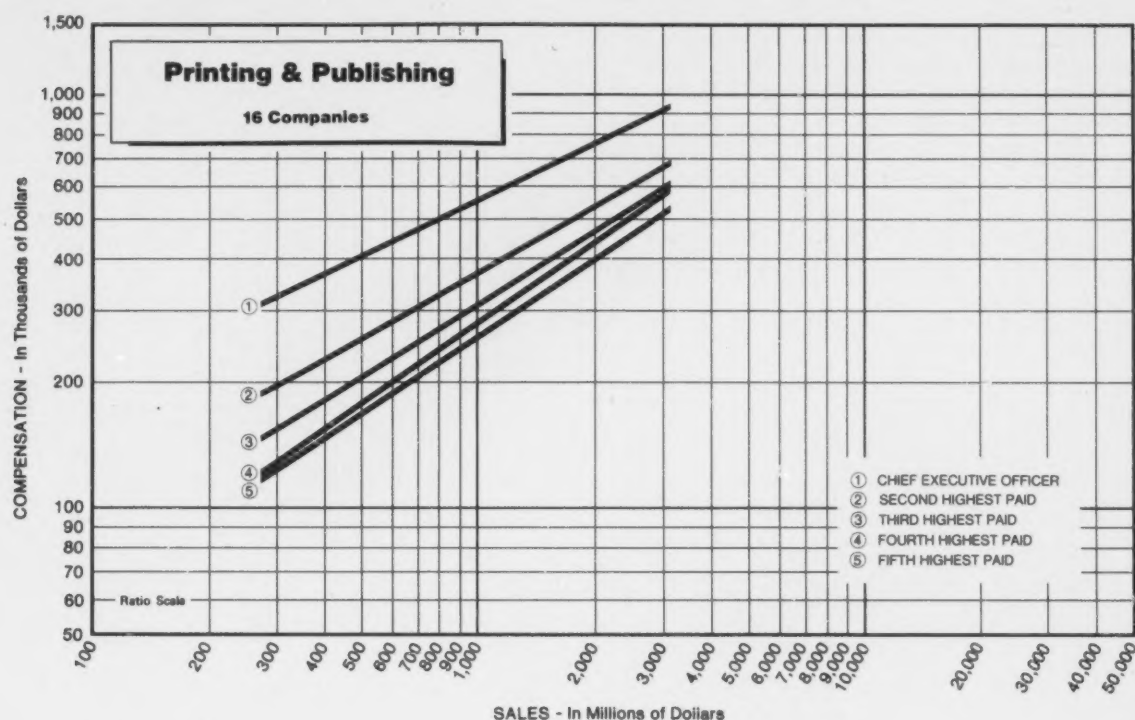


Chart 9: Compensation of the Five Highest Paid Executives, by Company Sales



The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	68%	49% to 80%
Third highest	49	43 to 70
Fourth highest	44	39 to 60
Fifth highest	39	35 to 48

As the lines on Chart 9 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.4157 + 0.4424 \log X$	60%
Second	$\log Y = 0.9723 + 0.5317 \log X$	69
Third	$\log Y = 0.7439 + 0.5838 \log X$	65
Fourth	$\log Y = 0.4728 + 0.6576 \log X$	72
Fifth	$\log Y = 0.4331 + 0.6589 \log X$	74

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.1216 + 0.4840 \log X$	74%
Second	$\log Y = 0.8263 + 0.5270 \log X$	75
Third	$\log Y = 0.5552 + 0.5959 \log X$	78
Fourth	$\log Y = 0.3938 + 0.6364 \log X$	78
Fifth	$\log Y = 0.3401 + 0.6435 \log X$	80

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Thirteen (81 percent) of the 16 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

All thirteen paid a bonus in both 1984 and 1983.

Seven (44 percent) of the companies have an executive incentive plan that is based on long-term corporate per-

formance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 13.)

Three (19 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Ten (63 percent) of the companies have a **stock option plan**. Eight of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; one

grants only ISO's, and one only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by seven of the nine companies that grant ISO's, and by seven of the nine companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the nine companies that grant ISO's. SAR's are provided by four of the nine companies that grant nonqualified options.

Industrial Chemicals

This industry includes producers of basic chemicals such as acids, alkalis, salts and organic chemicals and chemical products to be used in further manufacture such as synthetic fibers, plastics, dry colors and pigments. (SIC: 281, 282, and 285-289)

The Companies

Executive compensation data for this industry were obtained from 45 companies, classified below according to 1984 sales volume. The smallest company had sales of \$107 million; the largest, \$36 billion.

1984 Sales	Number of Companies	
\$5 billion and over	8	Median Sales:
\$2-4,999 billion	10	\$1.8 billion
\$1-1,999 billion	10	
500-999 million	6	Middle 50 percent:
100-499 million	11	\$625 million to
Total	45	\$3.3 billion

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest

paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 45 companies is plotted in Chart 10. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$575,000	\$337,000 to \$860,000
Second	351,000	211,000 to 550,000
Third	303,000	188,000 to 461,000
Fourth	255,000	164,000 to 388,000
Fifth	241,000	127,000 to 322,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	67%	57% to 73%
Third highest	54	47 to 64
Fourth highest	49	41 to 53
Fifth highest	43	36 to 49

Chart 10: Compensation of the Chief Executive, by Company Sales

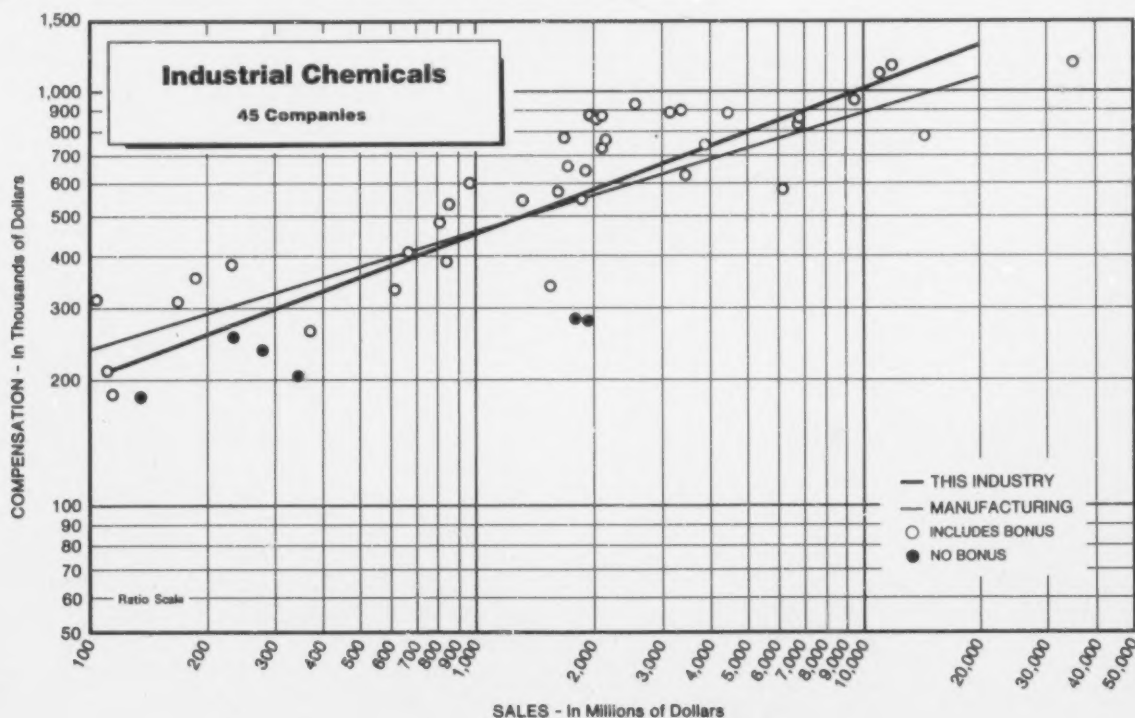
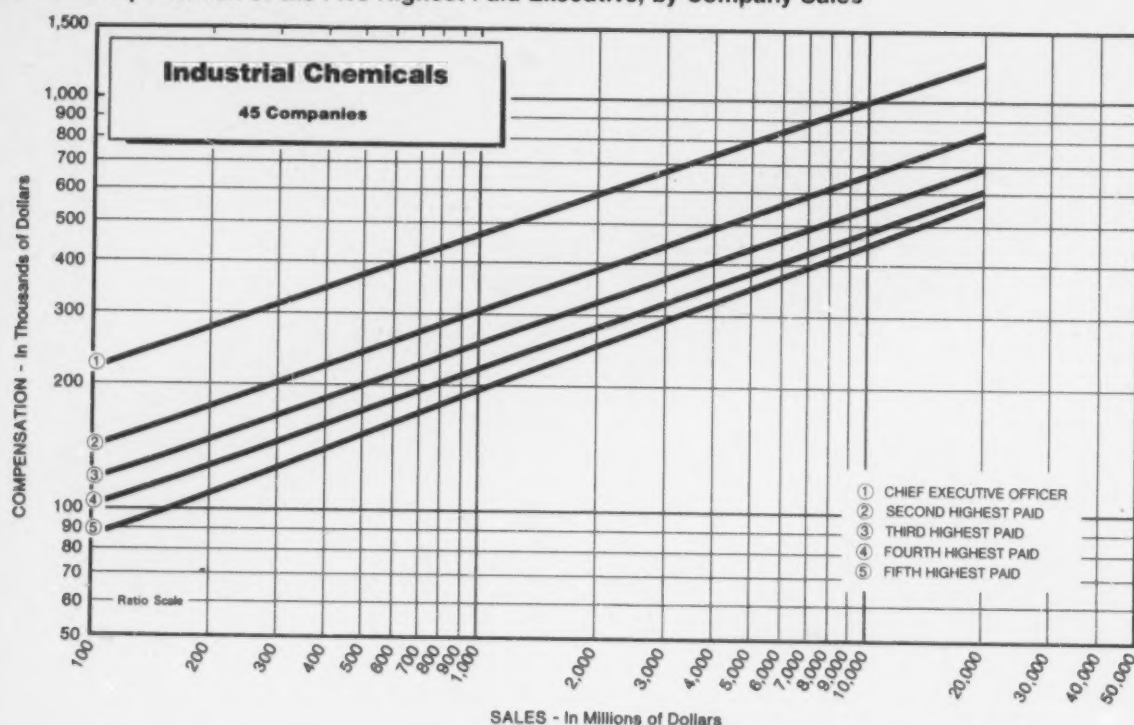


Chart 11: Compensation of the Five Highest Paid Executive, by Company Sales



As the lines on Chart 11 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.6836 + 0.3289 \log X$	73%
Second	$\log Y = 1.5159 + 0.3218 \log X$	68
Third	$\log Y = 1.4352 + 0.3224 \log X$	76
Fourth	$\log Y = 1.3540 + 0.3297 \log X$	79
Fifth	$\log Y = 1.2395 + 0.3508 \log X$	80

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.6626 + 0.2813 \log X$	81%
Second	$\log Y = 1.5390 + 0.2644 \log X$	73
Third	$\log Y = 1.3901 + 0.2860 \log X$	80
Fourth	$\log Y = 1.2638 + 0.3073 \log X$	84
Fifth	$\log Y = 1.3184 + 0.2795 \log X$	83

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Forty-one (91 percent) of the 45 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Thirty-nine (95 percent) of these companies made a bonus award for 1984 performance; most (36) also paid a bonus for 1983.

Twenty-one (47 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 11.)

Fifteen (33 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Thirty-four (76 percent) of the companies have a **stock option plan**. Twenty-seven of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's, and four only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 23 (77 percent) of the 30 companies that grant ISO's,

and by 25 (81 percent) of the 31 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by 13 (43

percent) of the 30 companies that grant ISO's. SAR's are provided by 15 (48 percent) of the 31 companies that grant nonqualified options.

3

Consumer Chemicals

This industry includes manufacturers of finished chemical products to be used for ultimate consumption such as drugs, soap and detergents and cleaning preparations, perfumes, cosmetics and other toilet preparations. (SIC: 283 and 284)

The Companies

Executive compensation data for this industry were obtained from 22 companies, classified below according to 1984 sales volume. The smallest company had sales of \$156 million; the largest, \$12.9 billion.

1984 Sales	Number of Companies	
\$2 billion and over	8	Median Sales:
\$1-1,999 billion	3	\$706 million
500-999 million	2	Middle 50 percent:
100-499 million	9	\$333 million to
Total	22	\$3.1 billion

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 22 companies is plotted in Chart 12. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$597,000	\$415,000 to \$732,000
Second	338,000	271,000 to 480,000
Third	280,000	206,000 to 405,000
Fourth	254,000	179,000 to 352,000
Fifth	225,000	167,000 to 320,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	66%	53% to 75%
Third highest	53	43 to 60
Fourth highest	44	40 to 49
Fifth highest	43	34 to 46

Chart 12: Compensation of the Chief Executive, by Company Sales

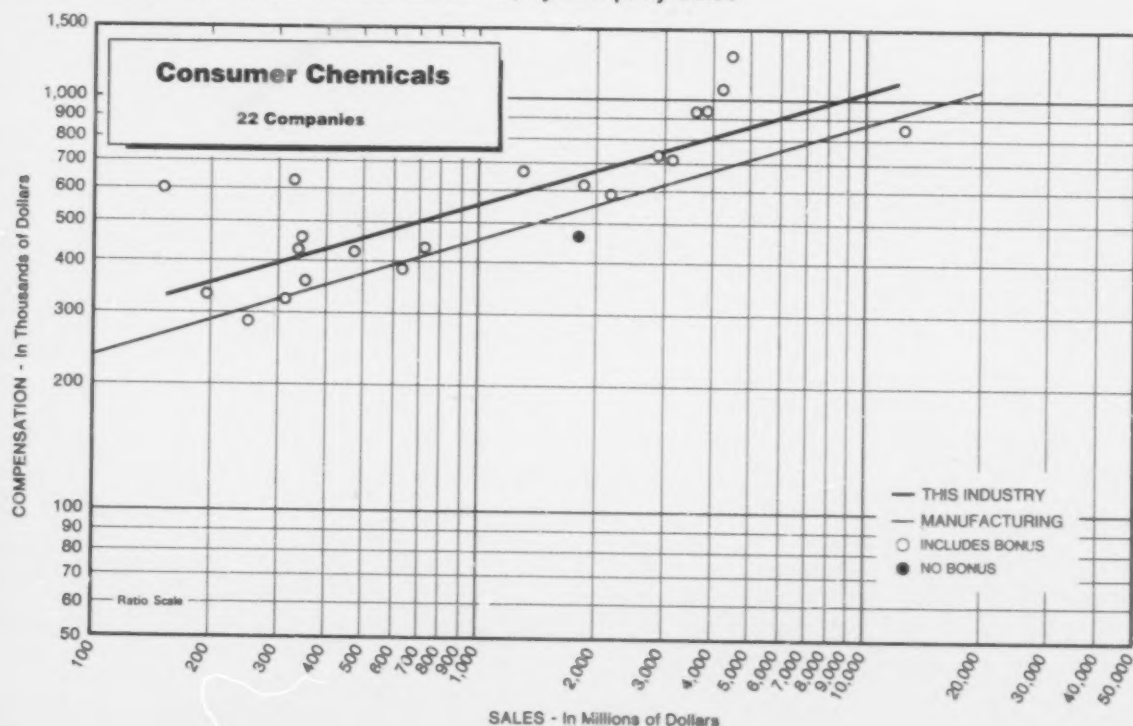
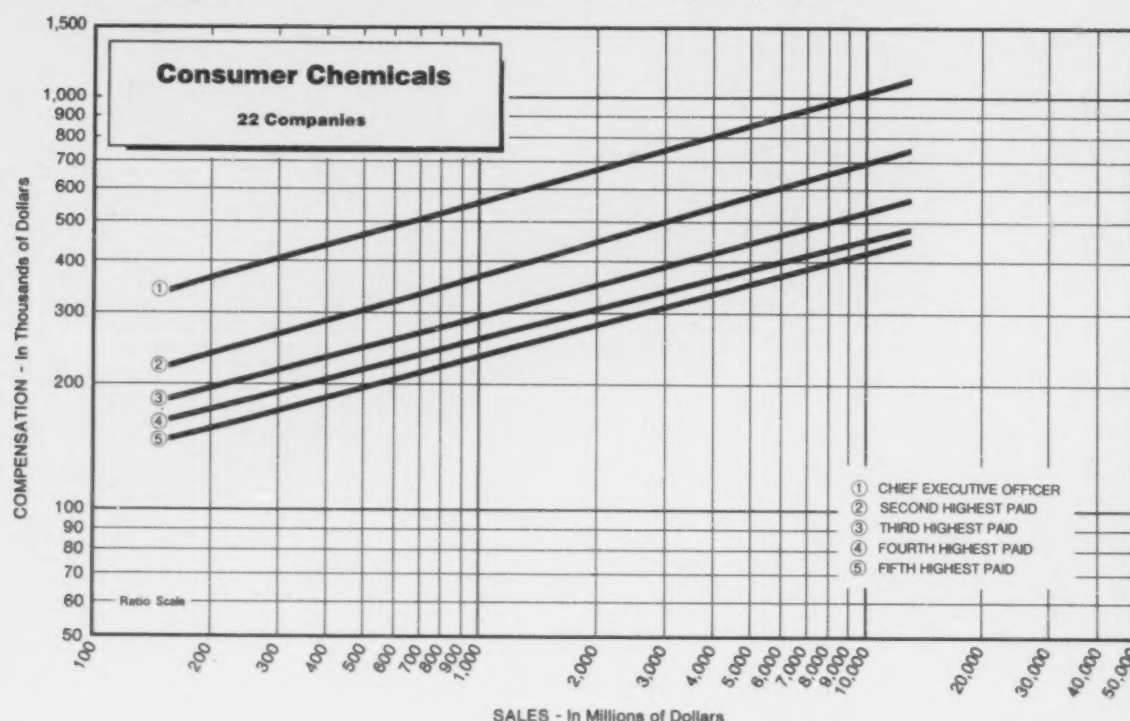


Chart 13: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 13 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.9441 + 0.2681 \log X$	65%
Second	$\log Y = 1.7284 + 0.2798 \log X$	64
Third	$\log Y = 1.7193 + 0.2517 \log X$	57
Fourth	$\log Y = 1.6730 + 0.2469 \log X$	61
Fifth	$\log Y = 1.6181 + 0.2503 \log X$	59

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.7818 + 0.2614 \log X$	66%
Second	$\log Y = 1.5599 + 0.2786 \log X$	68
Third	$\log Y = 1.6288 + 0.2317 \log X$	54
Fourth	$\log Y = 1.6115 + 0.2164 \log X$	53
Fifth	$\log Y = 1.6156 + 0.2070 \log X$	60

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

All of the 22 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Twenty-one (96 percent) of these companies made a bonus award for 1984 performance; all also paid a bonus for 1983.

Five (23 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Eight (36 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Nineteen (86 percent) of the companies have a **stock option plan**. Eighteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; none grant only ISO's, and one grants only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 12 (67 percent) of the 18 companies that grant ISO's, and by 12 (63 percent) of the 19 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by six (33 percent) of the 18 companies that grant ISO's. SAR's are provided by 9 (47 percent) of the 19 companies that grant nonqualified options.

Stone, Clay, Glass and Concrete Products

This industry includes manufacturers of flat glass and other glass products, cement, structural clay products, pottery, concrete and gypsum products, cut stone products, abrasive and asbestos products, etc., from materials taken principally from the earth in the form of stone, clay and sand. (SIC: 32)

The Companies

Executive compensation data for this industry were obtained from 24 companies, classified below according to 1984 sales volume. The smallest company had sales of \$130 million; the largest, \$7.7 billion.

1984 Sales	Number of Companies	
\$2 billion and over	5	Median Sales:
\$1-1,999 billion	6	\$715 million
500-999 million	4	Middle 50 percent:
300-499 million	4	\$355 million to
100-299 million	5	\$1.8 billion
Total	24	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest

paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 24 companies is plotted in Chart 14. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$456,000	\$291,000 to \$610,000
Second	295,000	183,000 to 360,000
Third	218,000	150,000 to 338,000
Fourth	184,000	143,000 to 280,000
Fifth	165,000	110,000 to 280,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	62%	53% to 72%
Third highest	51	48 to 60
Fourth highest	45	38 to 52
Fifth highest	43	33 to 47

Chart 14: Compensation of the Chief Executive, by Company Sales

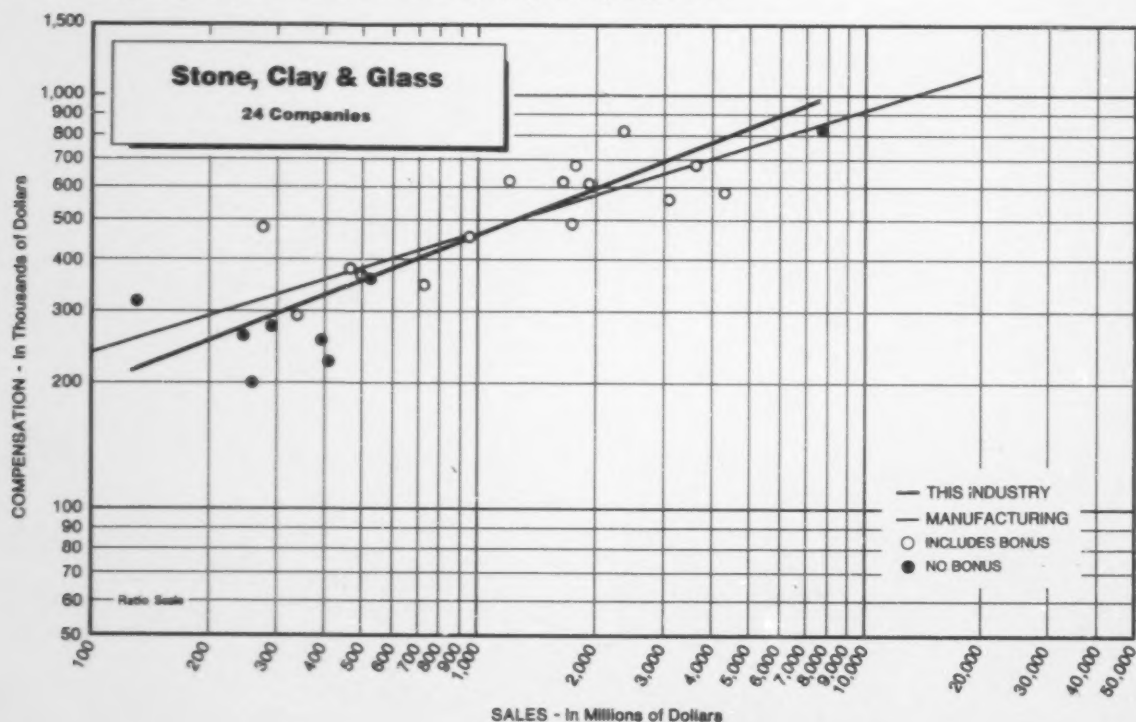
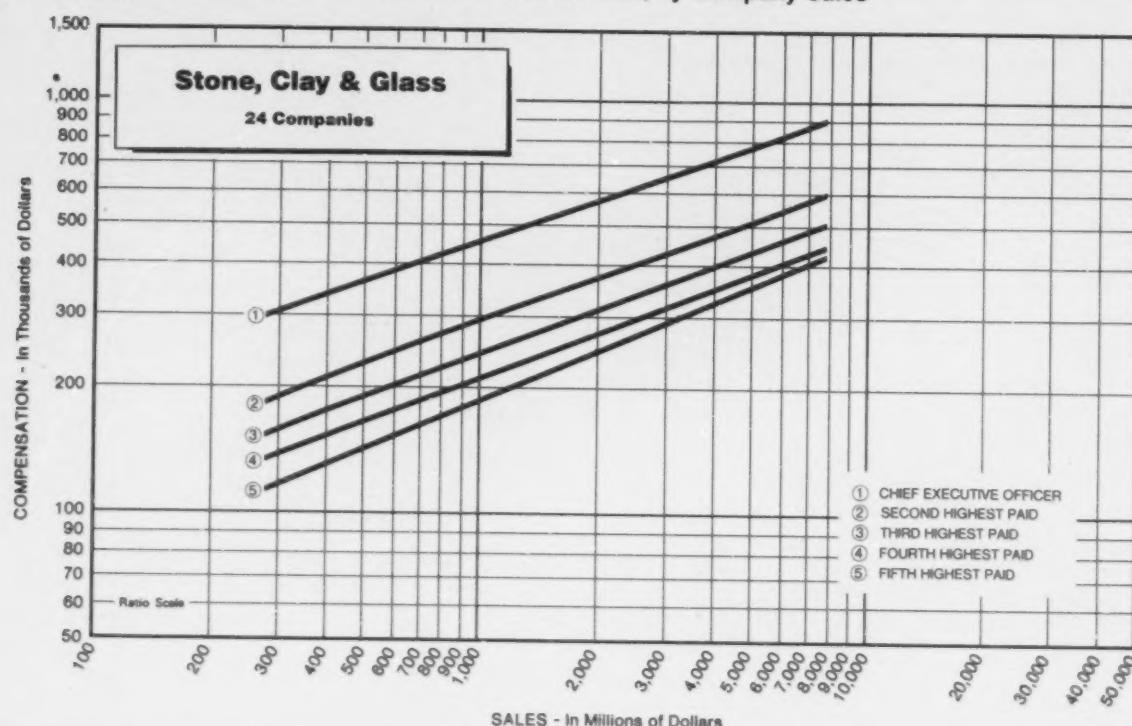


Chart 15: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 15 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.6541 + 0.3360 \log X$	48%
Second	$\log Y = 1.4263 + 0.3454 \log X$	57
Third	$\log Y = 1.2994 + 0.3618 \log X$	56
Fourth	$\log Y = 1.2357 + 0.3613 \log X$	65
Fifth	$\log Y = 1.1021 + 0.3908 \log X$	62

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.8478 + 0.2270 \log X$	70%
Second	$\log Y = 1.5603 + 0.2592 \log X$	54
Third	$\log Y = 1.3329 + 0.3061 \log X$	68
Fourth	$\log Y = 1.3647 + 0.2826 \log X$	71
Fifth	$\log Y = 1.2625 + 0.2989 \log X$	70

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-three (96 percent) of the 24 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Eighteen (78 percent) of these companies made a bonus award for 1984 performance; most (17) also paid a bonus for 1983.

Fourteen (58 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Four (17 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Twenty-two (92 percent) of the companies have a **stock option plan**. Eighteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's, and two only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 14 (70 percent) of the 20 companies that grant ISO's,

and by 13 (65 percent) of the 20 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by five

(25 percent) of the 20 companies that grant ISO's. SAR's are provided by 9 (45 percent) of the 20 companies that grant nonqualified options.

Primary Metals

This industry includes companies engaged in the smelting of ferrous and nonferrous metals; in rolling, drawing and alloying these metals; in the manufacture of castings, forgings and other basic metal products; and in the manufacture of nails, spikes and insulated wire and cable. (SIC: 33)

The Companies

Executive compensation data for this industry were obtained from 30 companies, classified below according to 1984 sales volume. The smallest company had sales of \$110 million; the largest, \$19.1 billion.

1984 Sales	Number of Companies	
\$5 billion and over	3	Median Sales:
\$1-4,999 billion	8	\$531 million
500-999 million	5	Middle 50 percent:
300-499 million	3	\$232 million to
100-299 million	11	\$3.3 billion
Total	30	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest

paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 30 companies is plotted in Chart 16. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$400,000	\$275,000 to \$475,000
Second	241,000	170,000 to 344,000
Third	205,000	145,000 to 280,000
Fourth	159,000	126,000 to 232,000
Fifth	144,000	106,000 to 210,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	68%	60% to 76%
Third highest	54	51 to 60
Fourth highest	47	40 to 54
Fifth highest	40	35 to 49

Chart 16: Compensation of the Chief Executive, by Company Sales

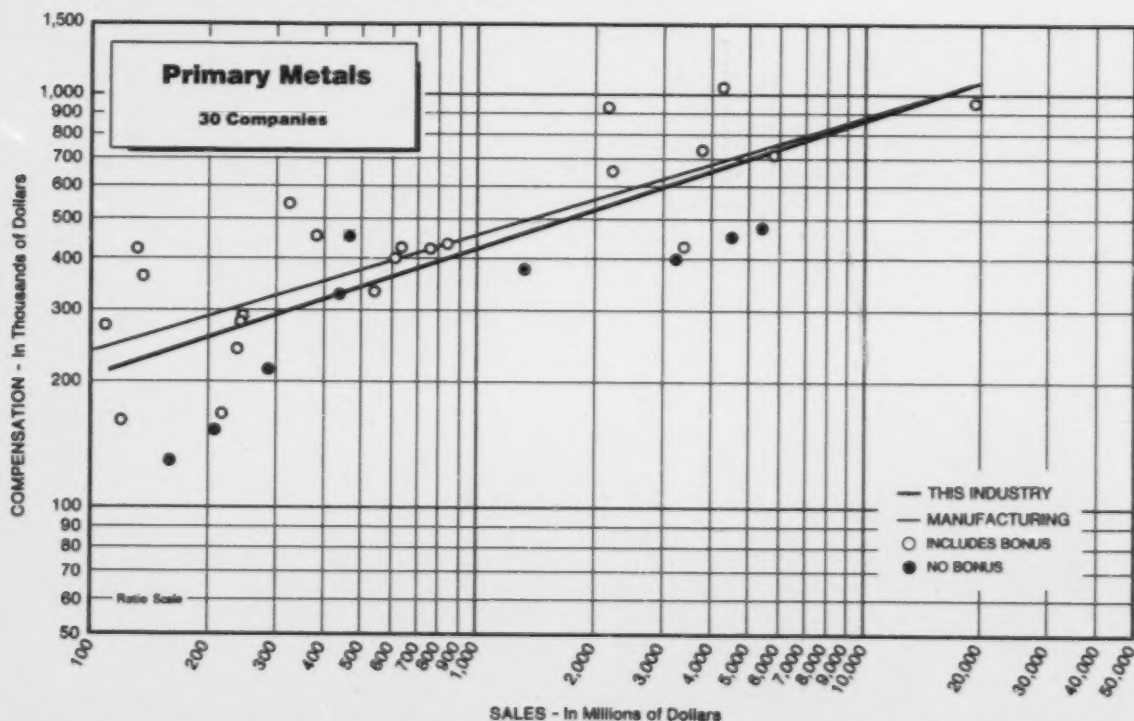
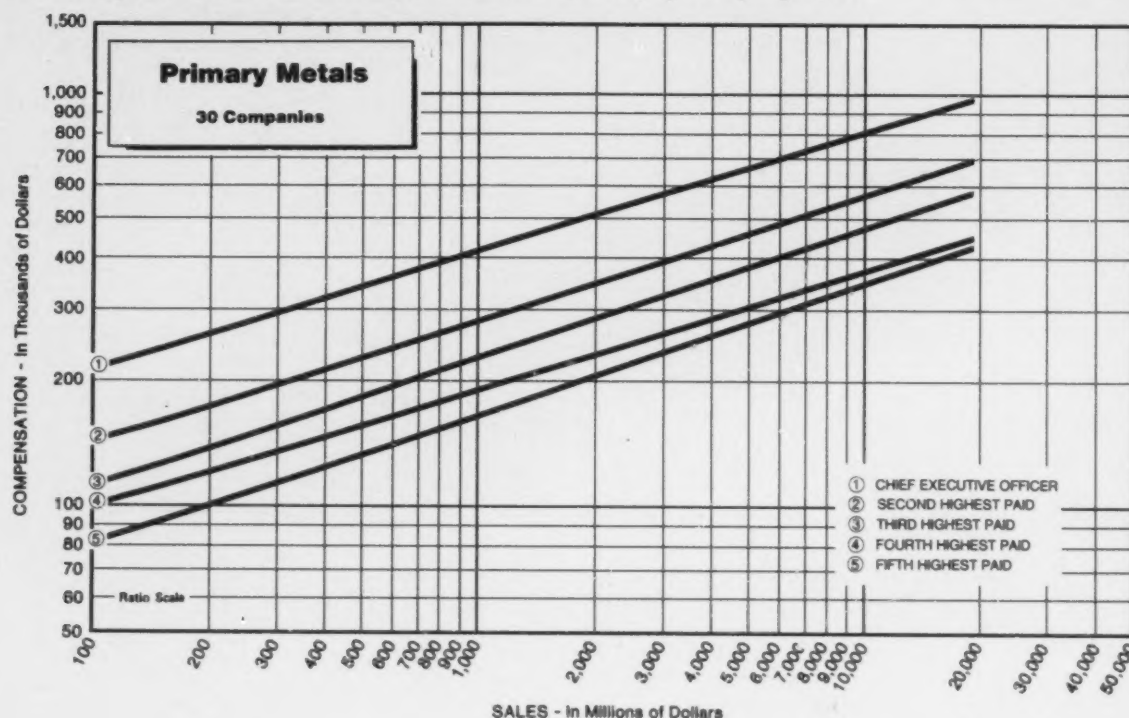


Chart 17: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 17 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.7644 + 0.2851 \log X$	59%
Second	$\log Y = 1.5554 + 0.2990 \log X$	63
Third	$\log Y = 1.4100 + 0.3171 \log X$	63
Fourth	$\log Y = 1.3810 + 0.3012 \log X$	72
Fifth	$\log Y = 1.3034 + 0.3052 \log X$	81

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.6981 + 0.2665 \log X$	71%
Second	$\log Y = 1.5331 + 0.2672 \log X$	67
Third	$\log Y = 1.3827 + 0.2853 \log X$	74
Fourth	$\log Y = 1.3319 + 0.2852 \log X$	75
Fifth	$\log Y = 1.3243 + 0.2677 \log X$	82

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-nine (97 percent) of the 30 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Twenty-two (76 percent) of these companies made a bonus award for 1984 performance; 15 of them also paid a bonus for 1983.

Five (17 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share** or **performance unit plans**. (For a description of payouts during 1984, see page 12.)

Three (10 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Twenty-three (77 percent) of the companies have a **stock option plan**. Seventeen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; one grants only ISO's, and five only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 13 (72 percent) of the 18 companies that grant ISO's, and by 16 (72 percent) of the 22 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by nine of the 18 companies that grant ISO's. SAR's are provided by 16 (73 percent) of the 22 companies that grant nonqualified options.

Fabricated Metal Products (except Machinery and Transportation Equipment)

This industry includes manufacturers of ferrous and nonferrous metals products such as metal cans, tinware, hand tools, cutlery, hardware, fabricated structural metal products, metal stampings, and a variety of metal and wire products. Excluded are machinery, transportation equipment, professional, scientific and controlling instruments, jewelry and silverware. (SIC: 34)

The Companies

Executive compensation data for this industry were obtained from 21 companies, classified below according to 1984 sales volume. The smallest company had sales of \$103 million; the largest, \$9.3 billion.

1984 Sales	Number of Companies	
\$1 billion and over	7	Median Sales:
500-999 million	5	\$571 million
300-499 million	4	Middle 50 percent:
100-299 million	5	\$301 million to
Total	21	\$1.2 billion

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives,

without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 21 companies is plotted in Chart 18. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$439,000	\$304,000 to \$559,000
Second	245,000	200,000 to 383,000
Third	206,000	170,000 to 318,000
Fourth	173,000	151,000 to 215,000
Fifth	169,000	140,000 to 207,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	72%	56% to 78%
Third highest	53	46 to 62
Fourth highest	46	38 to 55
Fifth highest	43	32 to 50

Chart 18: Compensation of the Chief Executive, by Company Sales

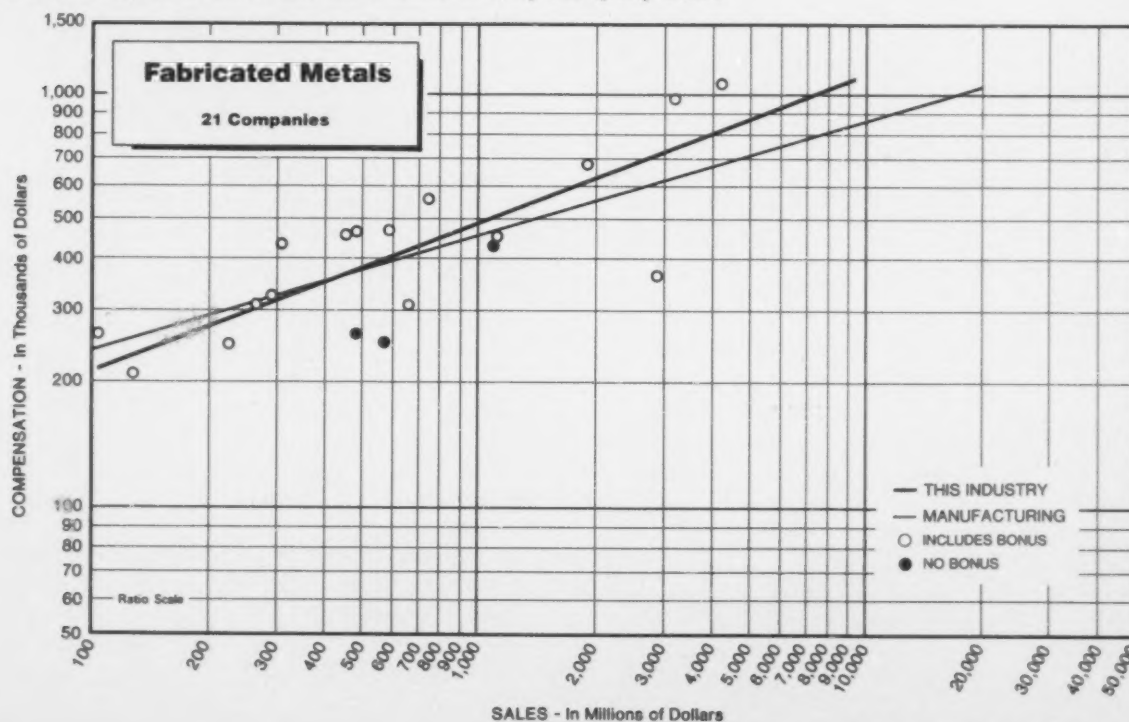
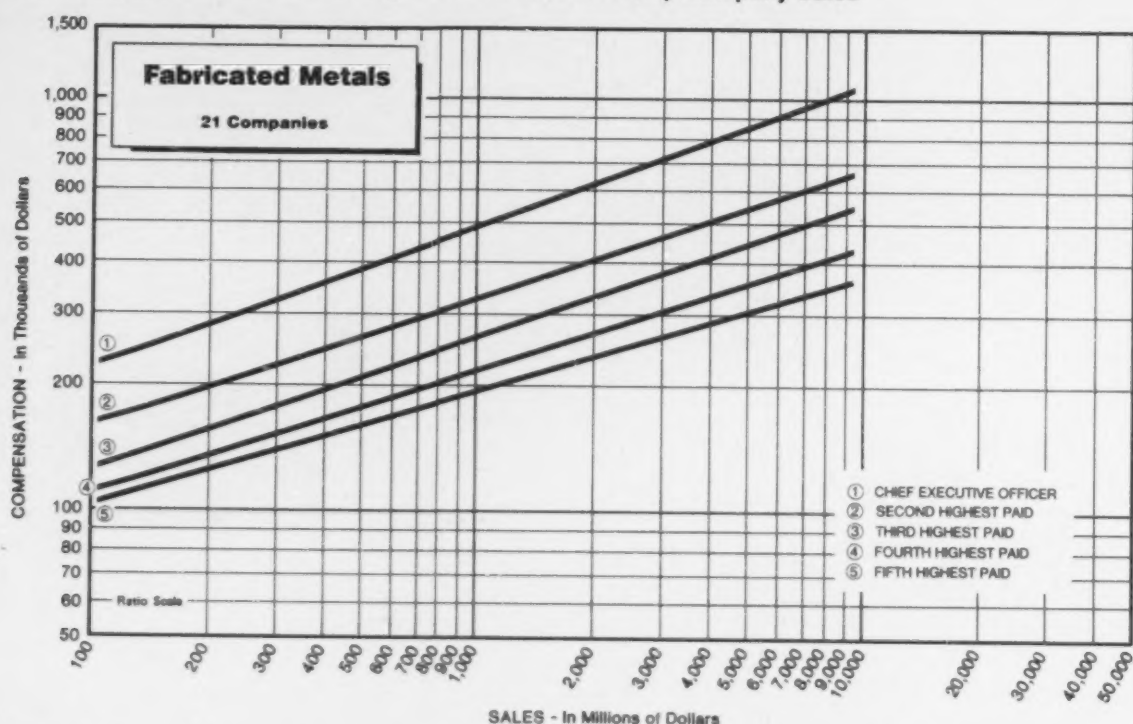


Chart 19: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 19 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.6699 + 0.3417 \log X$	57%
Second	$\log Y = 1.5880 + 0.3097 \log X$	50
Third	$\log Y = 1.4582 + 0.3213 \log X$	52
Fourth	$\log Y = 1.4458 + 0.2967 \log X$	66
Fifth	$\log Y = 1.4148 + 0.2929 \log X$	67

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ...	$\log Y = 1.8085 + 0.2441 \log X$	60%
Second	$\log Y = 1.6948 + 0.2214 \log X$	51
Third	$\log Y = 1.5079 + 0.2513 \log X$	55
Fourth	$\log Y = 1.5233 + 0.2160 \log X$	67
Fifth	$\log Y = 1.4639 + 0.2331 \log X$	69

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

All but two of the 21 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

All nineteen of these companies made a bonus award for 1984 performance; seventeen of them also paid a bonus for 1983.

Nine (43 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Three (14 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Sixteen (76 percent) of the companies have a **stock option plan**. Eleven of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's, and three only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by ten (77 percent) of the 13 companies that grant ISO's,

and by 10 (71 percent) of the 14 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by five

(39 percent) of the 13 companies that grant ISO's. SAR's are provided by eight (57 percent) of the 14 companies that grant nonqualified options.

Machinery (except Electrical)

This industry includes manufacturers of machinery and equipment, other than electrical equipment and transportation equipment. Machines powered by built-in or detachable motors are included, except for electrical household appliances. Portable tools, both electrical and pneumatic-powered, are included, but not hand tools. Includes office machines and computers. (SIC: 35)

The Companies

Executive compensation data for this industry were obtained from 72 companies, classified below according to 1984 sales volume. The smallest company had sales of \$105 million; the largest, \$46 billion.

1984 Sales	Number of Companies	
\$5 billion and over	4	Median Sales:
\$2-4,999 billion	8	\$516 million
\$1-1,999 billion	12	
500-999 million	14	Middle 50 percent:
300-499 million	9	\$205 million to
200-299 million	8	\$1.3 billion
100-199 million	17	
Total	72	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 72 companies is plotted in Chart 20. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$400,000	\$276,000 to \$610,000
Second	265,000	174,000 to 400,000
Third	207,000	152,000 to 300,000
Fourth	185,000	141,000 to 265,000
Fifth	163,000	119,000 to 233,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Chart 20: Compensation of the Chief Executive, by Company Sales

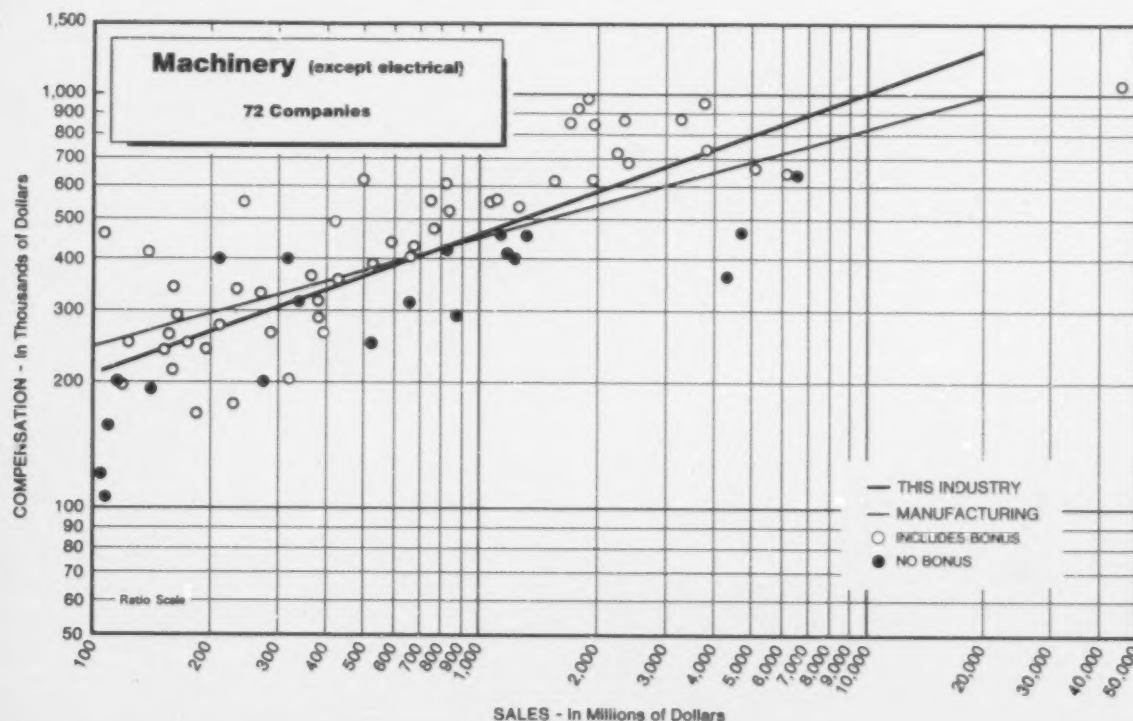
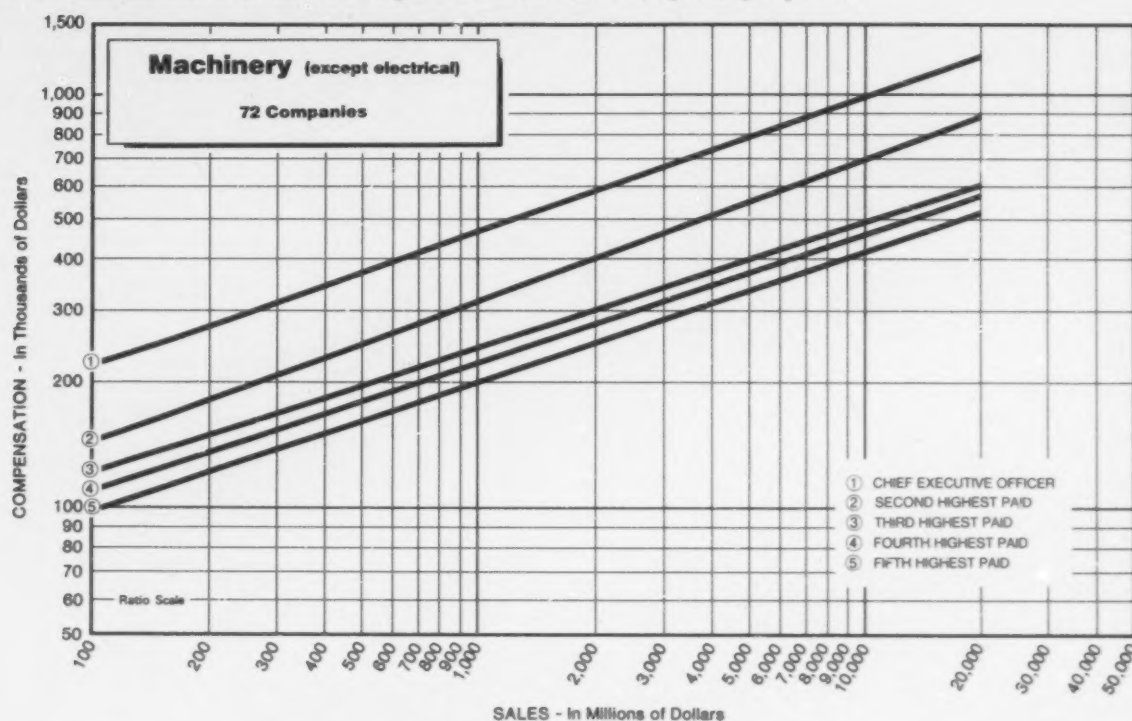


Chart 21: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	69%	60% to 78%
Third highest	55	46 to 61
Fourth highest	48	43 to 56
Fifth highest	43	38 to 50

As the lines on Chart 21 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid	$\log Y = 1.6906 + 0.3276 \log X$	59%
Second	$\log Y = 1.4987 + 0.3335 \log X$	63
Third	$\log Y = 1.4760 + 0.3035 \log X$	68
Fourth	$\log Y = 1.4385 + 0.3018 \log X$	72
Fifth	$\log Y = 1.3645 + 0.3119 \log X$	73

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid	$\log Y = 1.7072 + 0.2716 \log X$	67%
Second	$\log Y = 1.5606 + 0.2680 \log X$	65
Third	$\log Y = 1.5185 + 0.2414 \log X$	60
Fourth	$\log Y = 1.4795 + 0.2445 \log X$	74
Fifth	$\log Y = 1.4107 + 0.2529 \log X$	75

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Sixty-six (92 percent) of the 72 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Fifty (76 percent) of these companies made a bonus award for 1984 performance; most (46) also paid a bonus for 1983.

Twenty-five (35 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share** or **performance unit plans**. (For a description of payouts during 1984, see page 12.)

Eighteen (25 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Sixty-two (86 percent) of the companies have a **stock option plan**. Forty-four of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; eleven grant only ISO's, and seven only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for

by 42 (76 percent) of the 55 companies that grant ISO's, and by 39 (77 percent) of the 51 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 14 (26 percent) of the 55 companies that grant ISO's. SAR's are provided by 17 (33 percent) of the 51 companies that grant nonqualified options.

Electrical and Electronic Machinery, Equipment and Supplies

This industry includes manufacturers of machinery, apparatus and supplies for the generation, storage, transportation, transformation and utilization of electrical energy. Includes household appliances, but not industrial machinery powered by built-in or detachable electric motors. Includes electronic components. (SIC: 36)

The Companies

Executive compensation data for this industry were obtained from 38 companies, classified below according to 1984 sales volume. The smallest company had sales of \$101 million; the largest, \$33.1 billion.

1984 Sales	Number of Companies	
\$5 billion and over	7	Median Sales:
\$2-4,999 billion	3	\$516 million
\$1-1,999 billion	4	
300-999 million	12	Middle 50 percent:
200-299 million	4	\$235 million to
100-199 million	8	\$3.1 billion
Total	38	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 38 companies is plotted in Chart 22. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$416,000	\$296,000 to \$662,000
Second	276,000	189,000 to 425,000
Third	197,000	162,000 to 326,000
Fourth	187,000	150,000 to 300,000
Fifth	157,000	134,000 to 282,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Chart 22: Compensation of the Chief Executive, by Company Sales

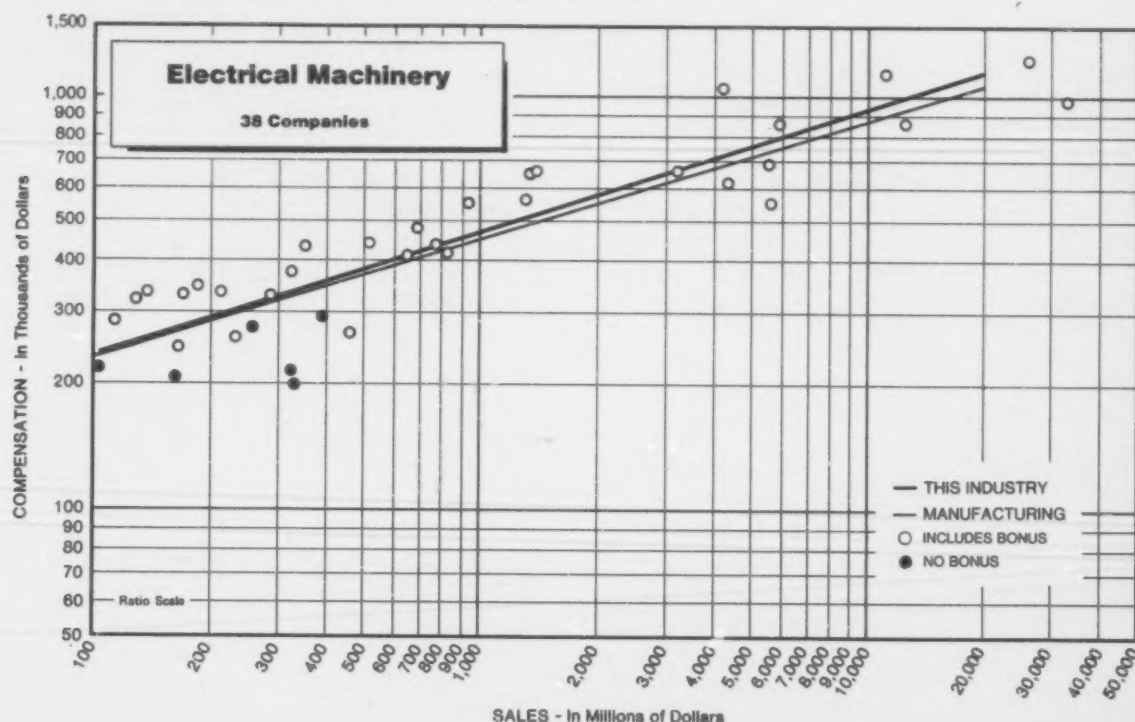
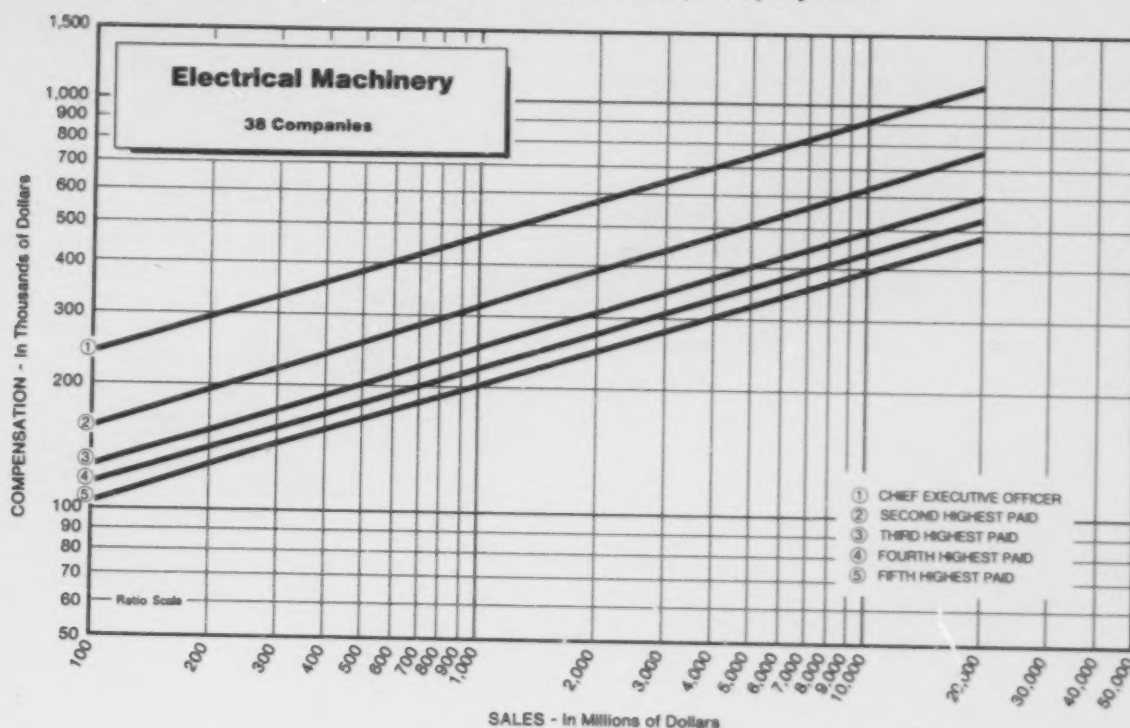


Chart 23: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	66%	59% to 79%
Third highest	50	47 to 59
Fourth highest	45	40 to 54
Fifth highest	42	37 to 49

As the lines on Chart 23 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.7962 + 0.2928 \log X$	80%
Second	$\log Y = 1.6026 + 0.2992 \log X$	78
Third	$\log Y = 1.4994 + 0.2990 \log X$	84
Fourth	$\log Y = 1.4837 + 0.2874 \log X$	83
Fifth	$\log Y = 1.4229 + 0.2942 \log X$	83

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.7944 + 0.2353 \log X$	81%
Second	$\log Y = 1.6023 + 0.2463 \log X$	67
Third	$\log Y = 1.4741 + 0.2577 \log X$	77
Fourth	$\log Y = 1.5058 + 0.2300 \log X$	76
Fifth	$\log Y = 1.4230 + 0.2429 \log X$	80

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

All 36 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Thirty-three (87 percent) of these companies made a bonus award for 1984 performance; all but eight also paid a bonus for 1983.

Fourteen (37 percent) of the companies have an executive incentive plan that is based on long-term corporate per-

formance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Six (16 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Thirty-six (95 percent) of the companies have a **stock option plan**. Twenty-five of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified op-

tions; six grant only ISO's, four only nonqualified options, and one company did not respond. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 24 (77 percent) of the 31 companies that grant ISO's, and by 25 (86 percent) of the 29 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine (29 percent) of the 31 companies that grant ISO's. SAR's are provided by 13 (45 percent) of the 29 companies that grant nonqualified options.

Transportation Equipment

This industry includes manufacturers of equipment for transportation of passengers and cargo by land, water and air. (SIC: 37)

The Companies

Executive compensation data for this industry were obtained from 30 companies, classified below according to 1984 sales volume. The smallest company had sales of \$148 million; the largest, \$84 billion.

1984 Sales	Number of Companies	
\$5 billion and over	10	Median Sales:
\$1-4,999 billion	7	\$2.6 billion
300-999 million	9	Middle 50 percent:
100-299 million	4	\$411 million to
Total	30	\$8.1 billion

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

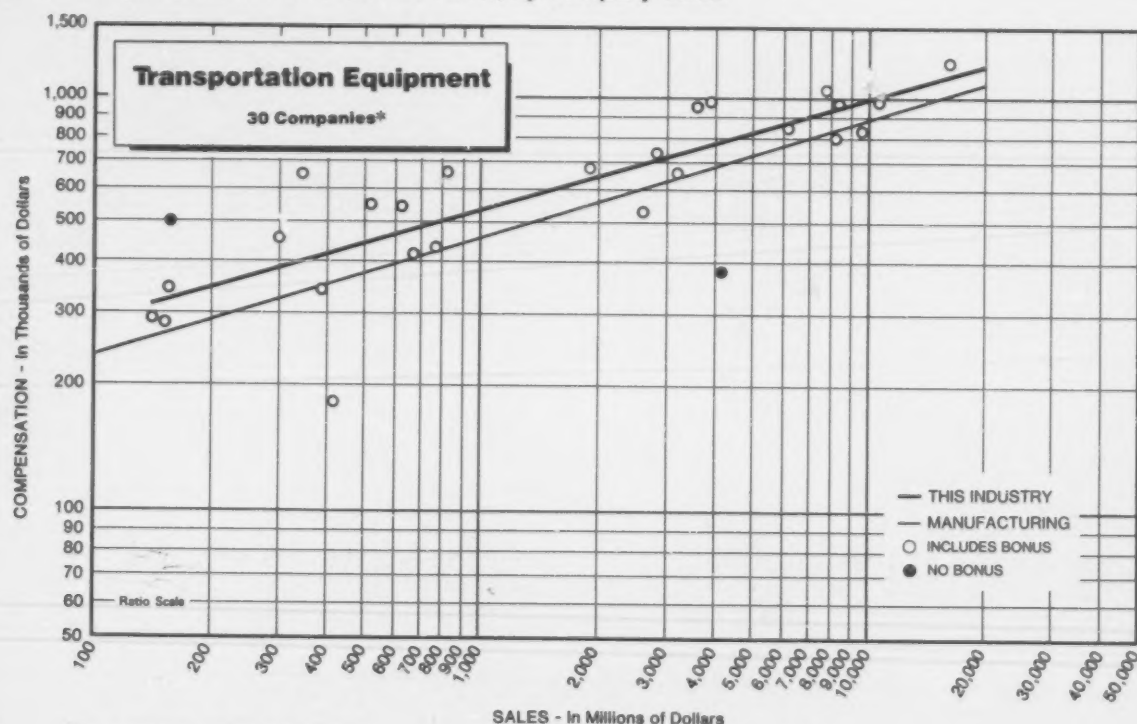
The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 30 companies is plotted in Chart 24. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$667,000	\$429,000 to \$975,000
Second	480,000	256,000 to 610,000
Third	320,000	212,000 to 470,000
Fourth	285,000	185,000 to 440,000
Fifth	240,000	160,000 to 403,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

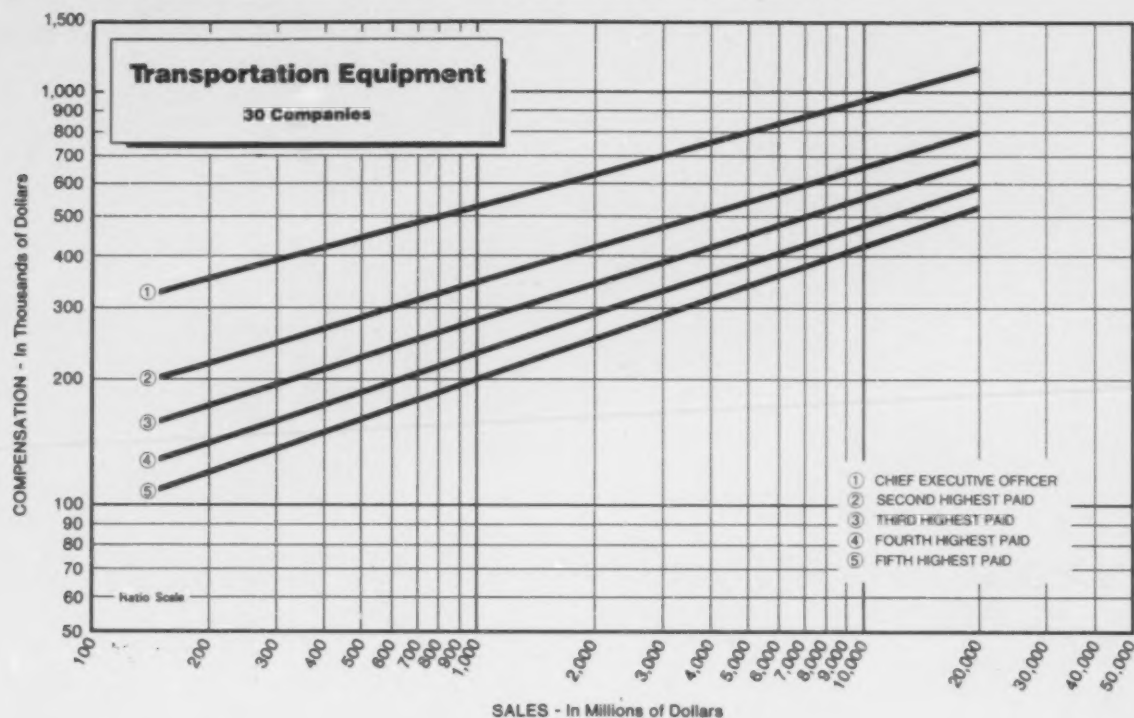
Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	66%	57% to 78%
Third highest	54	45 to 66
Fourth highest	45	35 to 53
Fifth highest	38	32 to 46

Chart 24: Compensation of the Chief Executive, by Company Sales



* Three companies with sales over \$50 billion not plotted

Chart 25: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 25 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.9684 + 0.2522 \log X$	75%
Second	$\log Y = 1.6754 + 0.2874 \log X$	85
Third	$\log Y = 1.5601 + 0.2954 \log X$	83
Fourth	$\log Y = 1.4129 + 0.3167 \log X$	85
Fifth	$\log Y = 1.3196 + 0.3271 \log X$	88

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.9782 + 0.1819 \log X$	57%
Second	$\log Y = 1.6773 + 0.2208 \log X$	80
Third	$\log Y = 1.5517 + 0.2298 \log X$	78
Fourth	$\log Y = 1.4533 + 0.2386 \log X$	81
Fifth	$\log Y = 1.4112 + 0.2377 \log X$	87

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-eight of the 30 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Twenty-seven (96 percent) of these companies made a bonus award for 1984 performance; all also paid a bonus for 1983.

Eight (27 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Four (13 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Twenty-nine (94 percent) of the companies have a **stock option plan**. Twenty-three of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's, and four only nonqualified options. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 21 (84 percent) of the 25 companies that grant ISO's, and by 19 (70 percent) of the 27 companies that grant non-qualified options.

Stock appreciation rights (SAR's) are provided by eight (32 percent) of the 25 companies that grant ISO's. SAR's are provided by 13 (48 percent) of the 27 companies that grant nonqualified options.

Instruments

This industry includes companies engaged in manufacturing professional, scientific and controlling instruments; photographic and optical goods; and watches and clocks. (SIC:38)

The Companies

Executive compensation data for this industry were obtained from 27 companies, classified below according to 1984 sales volume. The smallest company had sales of \$112 million; the largest, \$10.6 billion.

1984 Sales	Number of Companies	
\$1 billion and over	8	Median Sales:
500-999 million	4	\$417 million
300-499 million	4	Middle 50 Percent:
200-299 million	3	\$170 million to
100-199 million	8	\$1.4 billion
Total	27	

1984 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid ex-

ecutive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation of each of the chief executive officers in this particular sample of 27 companies is plotted in Chart 26. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$372,000	\$285,000 to \$620,000
Second	238,000	198,000 to 368,000
Third	205,000	166,000 to 309,000
Fourth	177,000	148,000 to 248,000
Fifth	170,000	118,000 to 229,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Compensation Rank	Pay as Percentage of Chief Executive's Compensation	
	Median	Middle 50 Percent Range
Second highest	69%	56% to 75%
Third highest	56	49 to 60
Fourth highest	50	40 to 54
Fifth highest	43	36 to 47

Chart 26: Compensation of the Chief Executive, by Company Sales

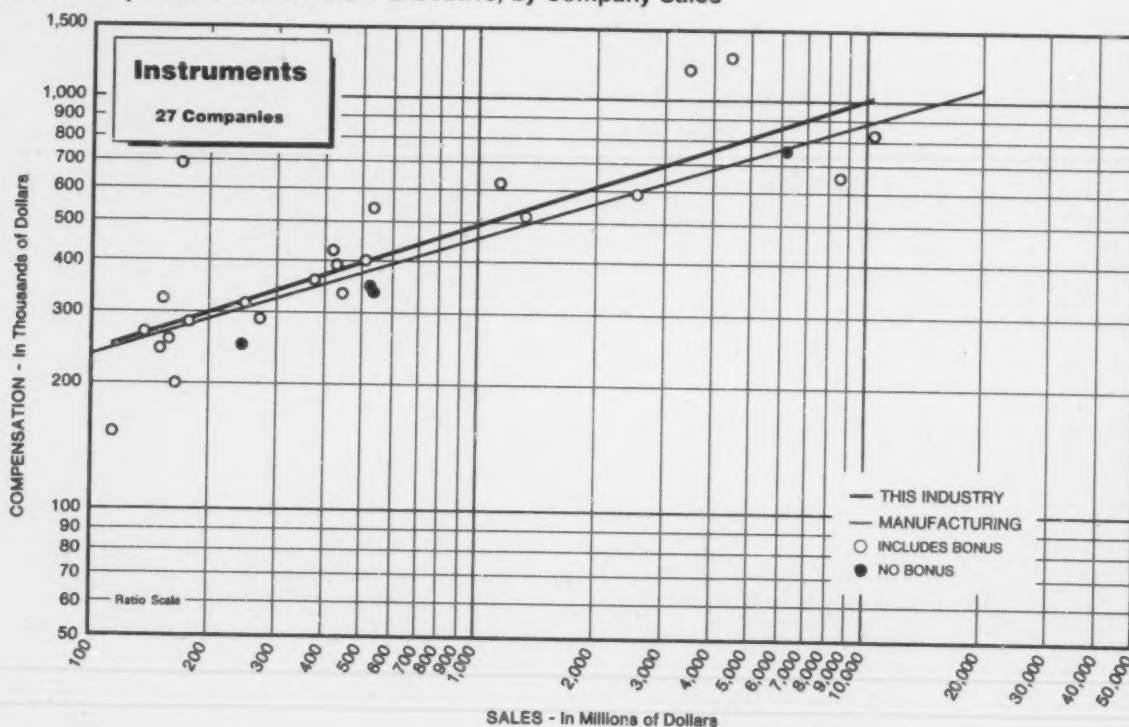
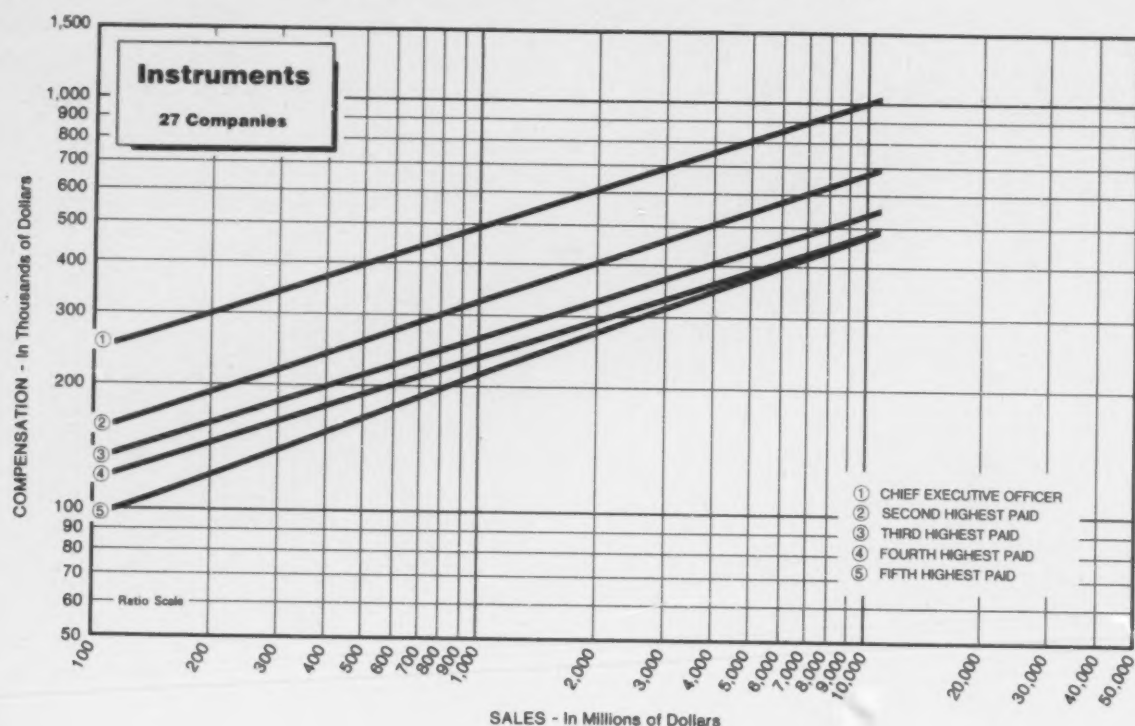


Chart 27: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 27 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the "coefficient of determination" (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.7537 + 0.3147 \log X$	70%
Second	$\log Y = 1.5581 + 0.3153 \log X$	81
Third	$\log Y = 1.5209 + 0.2995 \log X$	81
Fourth	$\log Y = 1.4591 + 0.3046 \log X$	81
Fifth	$\log Y = 1.2957 + 0.3435 \log X$	82

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the "coefficient of determination."

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.6668 + 0.2985 \log X$	75%
Second	$\log Y = 1.4676 + 0.3032 \log X$	83
Third	$\log Y = 1.4203 + 0.2896 \log X$	76
Fourth	$\log Y = 1.4167 + 0.2786 \log X$	78
Fifth	$\log Y = 1.2849 + 0.3074 \log X$	79

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-four (89 percent) of the 27 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1984 bonus awards, see page 11.)

Twenty-two of these 24 companies made a bonus award for 1984 performance; all (22) also paid a bonus for 1983.

Nine (33 percent) of the companies have an executive incentive plan that is based on long-term corporate perfor-

mance goals, usually called **performance share or performance unit plans**. (For a description of payouts during 1984, see page 12.)

Eight (30 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1984, see page 12.)

Twenty-three (85 percent) of the companies have a **stock option plan**. Fifteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options;

three grant only ISO's, four only nonqualified options, and one company did not respond. (For an analysis of the size of grants and value at exercise during 1984, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 12 (67 percent) of the 18 companies that grant ISO's, and by 12 (63 percent) of the 19 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by six (33 percent) of the 18 companies that grant ISO's. SAR's are provided by 11 (58 percent) of the 19 companies that grant nonqualified options.

Chapter 4 Retail Trade

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 68 retailers, 20 percent of approximately all retailers with sales of \$50 million or more. These 68 retailers are classified below according to 1984 sales volume.

1984 Sales	Retailers	
	Number	Percent
\$3 billion and over	19	28%
\$1-2,999 billion	12	18
500-999 million	9	13
300-499 million	13	19
50-299 million	15	22
Total	68	100%

Median sales volume is \$687 million, with the middle half of retailers ranging between \$312 million and \$3.1 billion.

Pay Trends

On the average, total compensation for 1984 (which includes bonus awards) was 8 percent greater than in 1983 for top executives in these retail firms. For example, in a sample of 45 chief executive officers for whom both 1983 and 1984 total compensation was available, the median increase was 8 percent, with the middle half ranging from a decrease of seven percent to an increase of 16 percent.

For 36 percent of these chief executive officer positions, total compensation was lower than in 1983. Among the 64 percent that show an increase, the median increase is 13 percent with the middle half ranging between 8 and 19 percent.

Although total compensation increased, bonus payments did not. For example, 78 percent of the retailers with a bonus plan paid a bonus for 1984 performance, while 88 percent did so for 1983 performance. Bonus payments, as a percentage of base salary, were somewhat lower. For example, the median bonus for chief executive officers represented 41 percent of salary for 1984, but was 45 percent of salary for 1983 performance. However, among 25 companies that paid a bonus for both 1984 and 1983, the median dollar bonus for chief executive officers increased one percent, with the middle half ranging between a 30 percent decrease and a 20 percent increase.

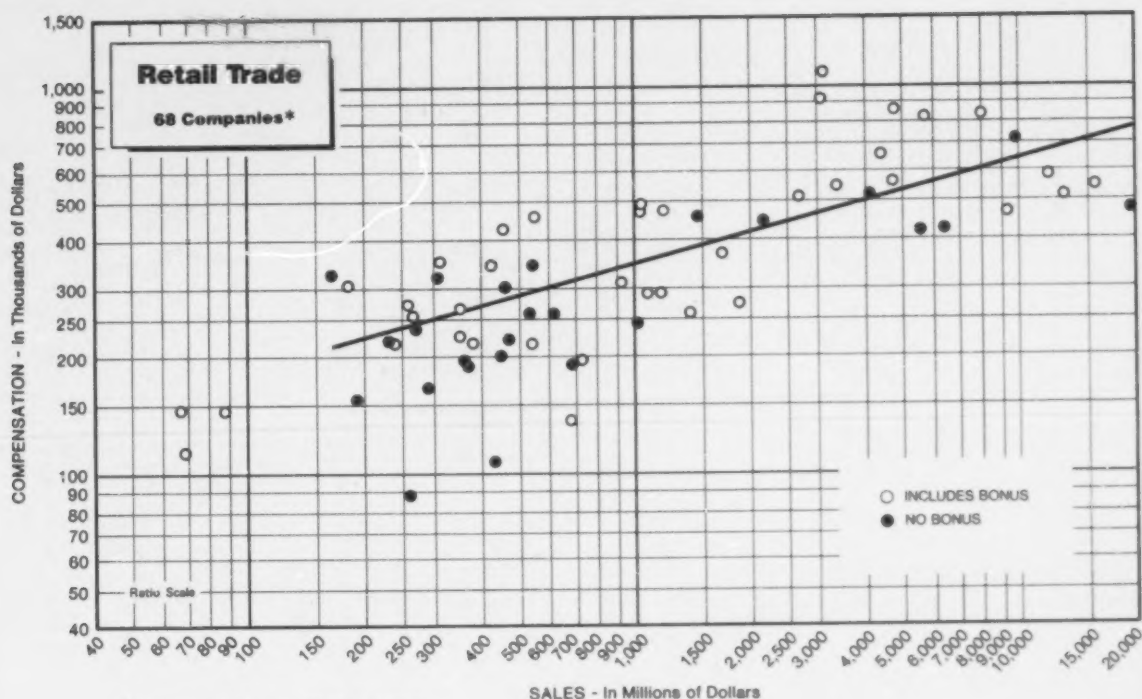
Total compensation increased because of increases in base salary. For example, among the 43 companies for which both 1984 and 1983 base salary were available, the median increase for the chief executive officer position was 10 percent, with the middle half ranging between a four percent increase and an 18 percent increase. For five percent of these chief executive positions, salary was lower in 1984 than in 1983, and for 12 percent it was unchanged. Among the 84 percent that received an increase, the median is 13 percent with the middle half between 7 and 19 percent.

As illustrated below, the 10 percent increase for 1984 reverses the drop in the rate of salary increases for the last few years! Apparently this will not continue, judging by the estimates obtained in May, 1985, of the average salary increase expected for the entire exempt population during 1985 and 1986.

Year	Number of Companies	Percentage Increase in Salary		
		Median	Middle 50 Percent Range	
Total Exempt Employees				
1986 Estimate . . .	56	6.0%	5.0% to	7.0%
1985 Estimate . . .	66	6.0	5.0 to	7.0
Chief Executive Officers				
1984	43	10%	4% to	18%
1983	49	8	0 to	16
1981-1982	58	8	0 to	15
1979-1981	47	26	15 to	34
1977-1979	48	20	5 to	40
1975-1977	60	18	3 to	32

¹The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 48. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14. The 1975-1977 changes are from *Top Executive Compensation 1978 Edition*. The Conference Board, Report No. 753, 1978, p. 18.

Chart 28: Compensation of the Chief Executive, by Company Sales



1984 Total Compensation

For each retailer, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation paid to each of the chief executive officers in this particular sample of 68 retailers is shown in Chart 28. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$319,000	\$220,000 to \$504,000
Second	230,000	138,000 to 384,000
Third	173,000	120,000 to 305,000
Fourth	135,000	100,000 to 265,000
Fifth	124,000	90,000 to 220,000

As the lines in Chart 29 suggest, there is a positive relationship between the level of total compensation and

sales volume for all five executives. The correlation coefficients for the five lines are, respectively: .70, .71, .70, .74, and .77.

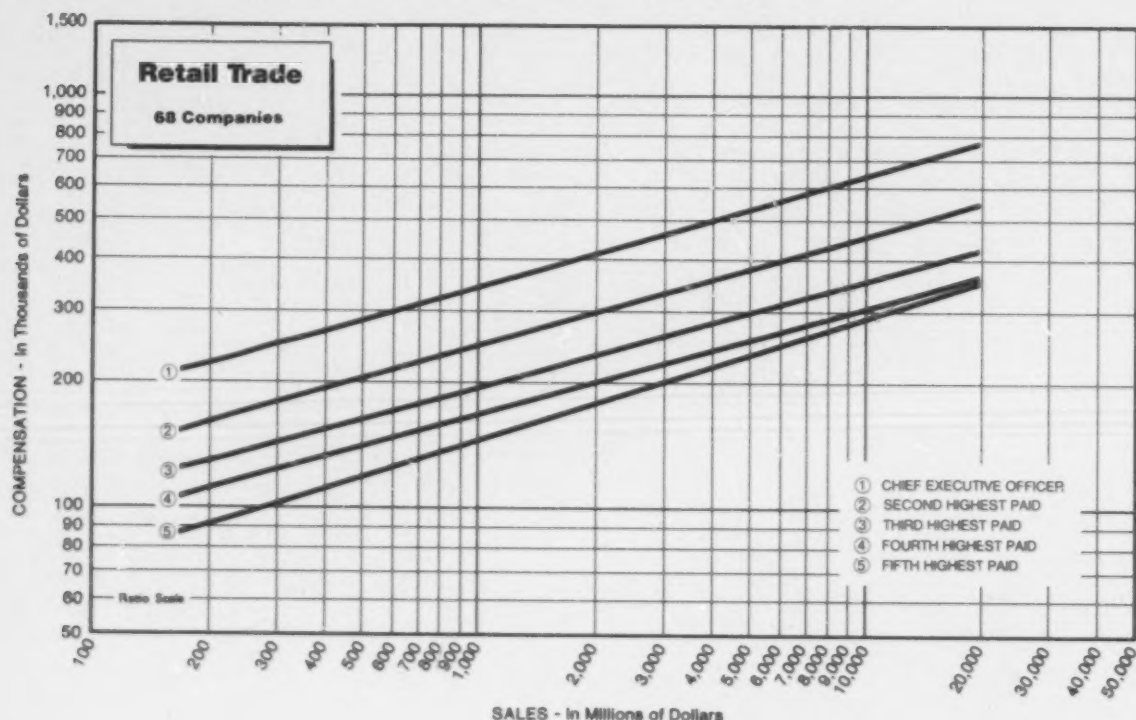
The regression lines on the chart can be used to determine the average compensation of an executive at any level of sales, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.7247 + 0.2703 \log X$	49%
Second	$\log Y = 1.5912 + 0.2667 \log X$	51
Third	$\log Y = 1.5117 + 0.2589 \log X$	49
Fourth	$\log Y = 1.4061 + 0.2721 \log X$	54
Fifth	$\log Y = 1.3062 + 0.2863 \log X$	59

Although total compensation and sales are highly related, company size is not the sole determinant of compensation level. As the "coefficients of determination" (r^2) above indicate, the variation in sales statistically explains 49 to 59 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Chart 29: Compensation of the Five Highest Paid Executives, by Company Sales



The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	72%	61% to 84%
Third highest	59	48 to 66
Fourth highest	48	41 to 59
Fifth highest	43	37 to 51

1984 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is sales volume stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.7530 + 0.2237 \log X$	48%
Second	$\log Y = 1.6061 + 0.2248 \log X$	47
Third	$\log Y = 1.5039 + 0.2270 \log X$	45
Fourth	$\log Y = 1.4383 + 0.2297 \log X$	48
Fifth	$\log Y = 1.3321 + 0.2477 \log X$	56

As the coefficients of determination (r²) above indicate, the variation in sales statistically explains 45 to 56 percent of the variation in base salary.

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	74%	61% to 87%
Third highest	61	49 to 69
Fourth highest	52	41 to 61
Fifth highest	44	38 to 52

These ratios are practically the same as the total compensation ratios.

1984 Bonus Awards

Fifty-five (81 percent) of the 68 retailers have an "annual" executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans have become more common among retailers over the past decade; in 1974 half of a comparable group of retailers had an annual incentive plan.¹ There is no particular relationship between the prevalence of these plans and the size of the company.

Seventy-eight percent (43) of the 55 retailers with a bonus plan made an award for 1984 performance; 93 percent

¹Top Executive Compensation 1974 Edition, (out of print). The Conference Board, Report No. 640, 1974, p. 50.

Table 6: 1984 Bonus Awards and 1983 Median Bonus

1984 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% or more	4	10%	3	7%	2	5%	2	5%	-	-%
75-99	3	7	4	9	2	5	2	5	4	9
60-74	4	10	3	7	3	7	1	2	3	7
50-59	2	5	4	9	3	7	7	16	3	7
40-49	10	24	6	14	10	23	5	11	10	23
30-39	5	12	8	18	5	12	7	16	6	14
20-29	5	12	4	9	8	19	9	20	6	14
Less than 20%	8	20	12	27	10	23	11	25	11	26
Total	41	100%	44	100%	43	100%	44	100%	43	100%
Median Bonus	41%		33%		35%		30%		34%	
Middle 50% Range	27-63%		15-53%		20-49%		18-52%		14-50%	
1983 Median Bonus	45%		39%		37%		35%		27%	

paid a bonus for 1983. Among the 43 companies that paid a 1984 bonus, all also paid an award for 1983. Among the nine companies that paid no bonus for 1984, eight paid a 1983 bonus and one paid no bonus in either year.

As Table 6 indicates, the median award for chief executive officers (41 percent of salary) is higher than that of the other four executives (30 to 35 percent of salary). Compared with bonus awards for 1983, the 1984 medians are 2 to 6 percentage points lower, except for the fifth executive whose bonus is seven percent higher.³

For each of the five executives the bonus award as a percentage of salary tends to increase with company size (Table 7).⁴ Again, the 1984 medians at each size level are lower than in 1983.⁵

Long-term Incentive Plans

Nine (13 percent) of the 68 retailers have a **restricted stock plan** under which contingent grants of company stock are

made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is about the same proportion of retailers that had a plan five years ago; 19 percent (17) of 90 retailers reported a plan in 1980.⁶

Restricted stock plans are slightly more common as company size increases. For example, 16 percent of the retailers with sales of \$500 million or more have a plan,

Table 7: 1984 and 1983 Bonus Awards (as Percent of Salary), by Company Size

Executive	Sales Volume		
	\$312 Million	\$687 Million	\$3.1 Billion
Chief Executive			
1984 Bonus (%)	41%	45%	53%
Salary	\$222,000	\$255,000	\$334,000
1983 Bonus (%)	59%	55%	50%
Second Highest Paid			
1984 Bonus (%)	39%	41%	47%
Salary	\$156,000	\$182,000	\$245,000
1983 Bonus (%)	49%	47%	44%
Third Highest Paid			
1984 Bonus (%)	37%	38%	38%
Salary	\$128,000	\$149,000	\$201,000
1983 Bonus (%)	41%	40%	38%
Fourth Highest Paid			
1984 Bonus (%)	29%	33%	38%
Salary	\$113,000	\$130,000	\$172,000
1983 Bonus (%)	40%	38%	36%
Fifth Highest Paid			
1984 Bonus (%)	30%	33%	37%
Salary	\$96,000	\$114,000	\$158,000
1983 Bonus (%)	31%	31%	29%

³Top Executive Compensation 1985 Edition, p. 52.

⁴Data are derived from regression equations based on the pay of executives in 44 companies with a bonus plan that paid a bonus. The equations are shown below; the coefficient of determination is shown in parentheses.

Total Compensation

Highest paid	$\log Y = 1.8920 + 0.2340 \log X$	(44%)
Second	$\log Y = 1.6528 + 0.2559 \log X$	(44%)
Third	$\log Y = 1.4841 + 0.2698 \log X$	(48%)
Fourth	$\log Y = 1.3462 + 0.2920 \log X$	(56%)
Fifth	$\log Y = 1.2852 + 0.2919 \log X$	(60%)

Base Salary

Highest paid	$\log Y = 1.6339 + 0.2579 \log X$	(60%)
Second	$\log Y = 1.4395 + 0.2722 \log X$	(52%)
Third	$\log Y = 1.3050 + 0.2813 \log X$	(53%)
Fourth	$\log Y = 1.1616 + 0.3065 \log X$	(64%)
Fifth	$\log Y = 1.1473 + 0.2998 \log X$	(61%)

⁵Top Executive Compensation 1985 Edition, p. 52.

⁶Top Executive Compensation 1980 Edition, p. 45. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

compared with 12 percent of the companies with sales under \$500 million.

Six retailers made a grant of restricted stock during 1984 to one or more of their five top-paid executives. The median grant to 20 executives, as a percentage of base salary, was 18 percent with the middle half ranging between 3 and 21 percent of 1984 salary.

Fifteen (22 percent) of the 68 retailers have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a **performance share or unit plan**.⁷ In 1980 only 11 percent of 90 retailers reported a plan.⁸

Eleven retailers made a payment during 1984 under these plans to at least one of the five top-paid executives. Payments to each of these 47 executives, converted to a percentage of 1984 salary, ranged from three to 147 percent, with the median payment representing 25 percent of base salary.

Seventy-one percent (48) of the 68 retailers have a **stock option plan**.⁹ These plans are more common among the largest retailers; for example, 82 percent of the companies with sales over \$500 million have a plan compared with 77 percent of the companies with sales of \$300 million to \$500 million, and 42 percent of the retailers with sales in the \$50 million to \$300 million range.

Among the 48 companies with a stock option plan, 60 percent (29) provide for grants of *both* incentive stock options (ISO's) and nonqualified options; 16 plans grant only ISO's, and three only nonqualified options.

Twenty-seven of the 48 retailers with a plan made a regular grant of stock options during 1984. Seven of the companies granted *only* ISO's, five *only* nonqualified options, 13 granted *both* ISO's and nonqualified options, and two companies did not respond. Among the 13 plans that granted both ISO's and nonqualified options, nine limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

Twenty-three of the 27 retailers that granted options in 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of op-

tions for 95 executives is the equivalent of 73 percent of base salary, with the middle half ranging between 41 and 104 percent of 1984 base salary.

One or more of the five top-paid executives in 22 retailers exercised a stock option (or SAR) during 1984. The net gain realized in cash or stock (market value less option price) for 49 executives is shown below, converted to a percentage of 1984 base salary.

Gain at Exercise (Percent of Salary)	Executive	
	Number	Percent
200-876%	3	6%
100-199	6	12
50-99	9	18
25-49	11	23
15-24	8	16
Less than 15%	12	24
Total	49	100%

The median gain is the equivalent of 27 percent of 1984 salary, with the middle half ranging from 14 to 93 percent of salary.

The actual dollar gain for 56 executives is shown below:

Dollar Gain at Exercise	Executives	
	Number	Percent
\$1 million and over	3	5%
300,000-999,000	9	16
200,000-299,000	3	5
100,000-199,000	10	18
50,000-99,000	10	18
25,000-49,000	8	14
Less than \$25,000	13	23
Total	56	100%

The median gain is \$88,000, with the middle half ranging between \$27,000 and \$211,000.

Stock-for-stock exercise (stock swaps) are provided for by 21 (47 percent) of the 45 plans that grant ISO's, and by half of the 32 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 16 (36 percent) of the 45 plans that grant ISO's. Most (12) limit SAR's to a small group of top management (essentially "insiders"), three plans grant SAR's to all ISO recipients, and one company did not respond. SAR's are provided by 15 (47 percent) of the 32 plans that grant nonqualified options. Most (13) limit SAR's to a small group of top management; the other two plans grant SAR's to all non-qualified option recipients.

⁷For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

⁸*Top Executive Compensation 1980 Edition*, p. 45.

⁹For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 5

Gas and Electric Utilities

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 97 gas and electric utilities, 70 percent of the gas and electric utilities with securities listed on the New York or American Stock Exchange. The 97 utilities are classified below according to 1984 operating revenue.

1984 Operating Revenue	Utilities	
	Number	Percent
\$3 billion and over	14	14%
\$2-2,999 billion	9	9
\$1-1,999 billion	26	27
500-999 million	25	26
100-499 million	23	24
Total	97	100%

Median operating revenue was \$1 billion, with the middle half of the utilities ranging between \$525 million and \$1.8 billion.

Pay Trends

On the average, total compensation for 1984 (which includes bonus awards) was 11 percent greater than in 1983 for top executives in these gas and electric utilities. For example, in a sample of 77 chief executive officers for whom both 1983 and 1984 total compensation was available, the median increase was 11 percent, with the middle half ranging from a five percent to a 20 percent increase.

For 14 percent of these chief executive officer positions, total compensation for 1984 was lower than 1983, and another 3 percent registered no gain. Among the 83 percent that show an increase, the median increase was 13 percent with the middle half ranging between 9 and 22 percent.

Slightly fewer companies paid a bonus in 1984 than in 1983, but the size of the bonus paid was somewhat larger. Eighty percent of the utilities with a bonus plan paid a bonus for 1984 performance, while 83 percent did so for 1983 performance. However, bonus payments, as a percentage of base salary, were somewhat higher. For example, the median bonus for chief executive officers represented 30 percent of salary for 1984 and 25 percent of salary for 1983 performance. Finally, among 19 companies that paid a bonus for both 1984 and 1983, the median dollar increase for the five top-paid executives was 15 percent, with the middle half ranging between no increase and a 65 percent in-

crease. Among the 72 percent that got a larger bonus, the median increase was 34 percent, with the middle half ranging between 13 and 84 percent.

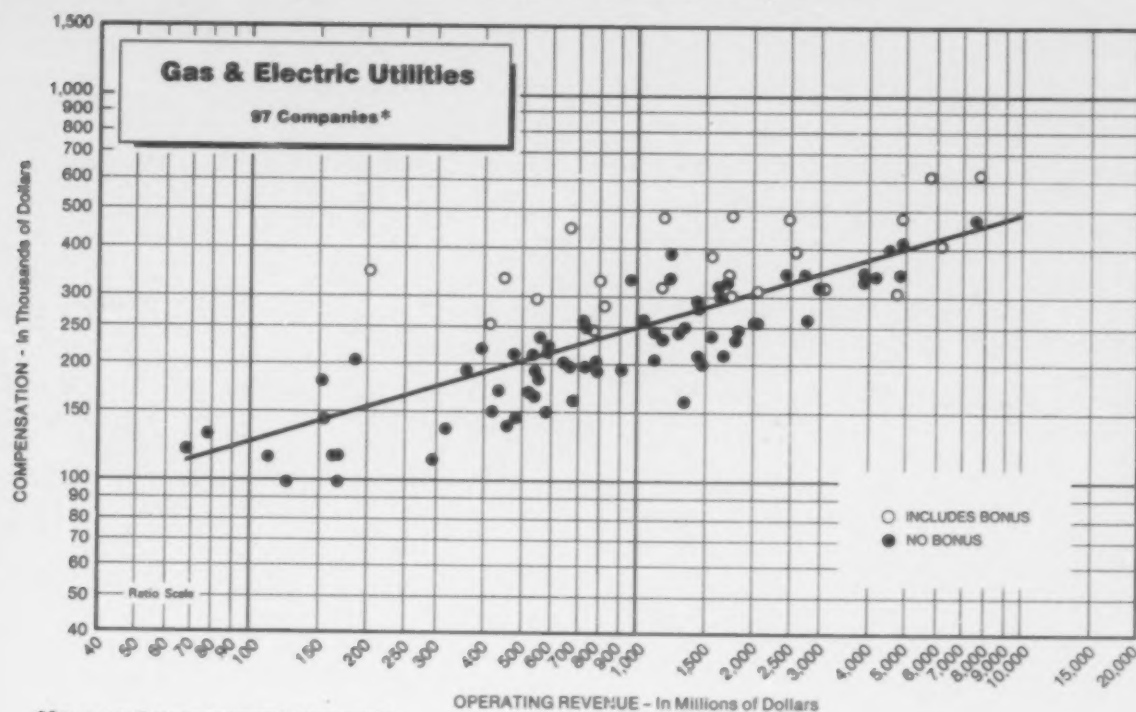
Total compensation also increased because of increases in base salary. For example, among the 76 companies for which both 1984 and 1983 base salary were available, the median increase for the chief executive officer position was 11 percent, with the middle half ranging between a 6 and 19 percent increase. For 11 percent of these chief executive positions, salary was lower in 1984 than in 1983, and for 4 percent it was unchanged. Among the 86 percent that received an increase, the median is 13 percent, with the middle half between 9 and 22 percent.

As illustrated below, the 11 percent increase for 1984 reverses the drop in the rate of salary increases for top executives during the last few years.¹ Apparently this will not continue, judging by the estimates obtained in May, 1985, of the average salary increase expected for the entire exempt population during 1985 and 1986.

Year	Number of Companies	Percentage Increase in Salary		
		Median	Middle 50 Percent	Range
Total Exempt Employees				
1986 Estimate . . .	42	5.5%	5.0% to	6.0%
1985 Estimate . . .	79	6.0	5.0 to	6.5
Chief Executive Officers				
1984	76	11%	6% to	19%
1983	77	7	1 to	15
1981-1982	75	10	7 to	16
1979-1981	78	24	18 to	33
1977-1979	99	17	8 to	25
1975-1977	103	18	9 to	25

¹The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1983, p. 53. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14. The 1975-1977 changes are from *Top Executive Compensation 1978 Edition*. The Conference Board, Report No. 753, 1978, p. 18.

Chart 30: Compensation of the Chief Executive, by Company Operating Revenue



1984 Total Compensation

For each gas and electric utility, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation paid to each of the chief executive officers in this particular sample of 97 utilities is shown in Chart 30. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$249,000	\$190,000 to \$331,000
Second	157,000	120,000 to 234,000
Third	132,000	99,000 to 181,000
Fourth	115,000	90,000 to 160,000
Fifth	102,000	84,000 to 142,000

As the lines in Chart 31 suggest, there is a positive relationship between the level of total compensation and op-

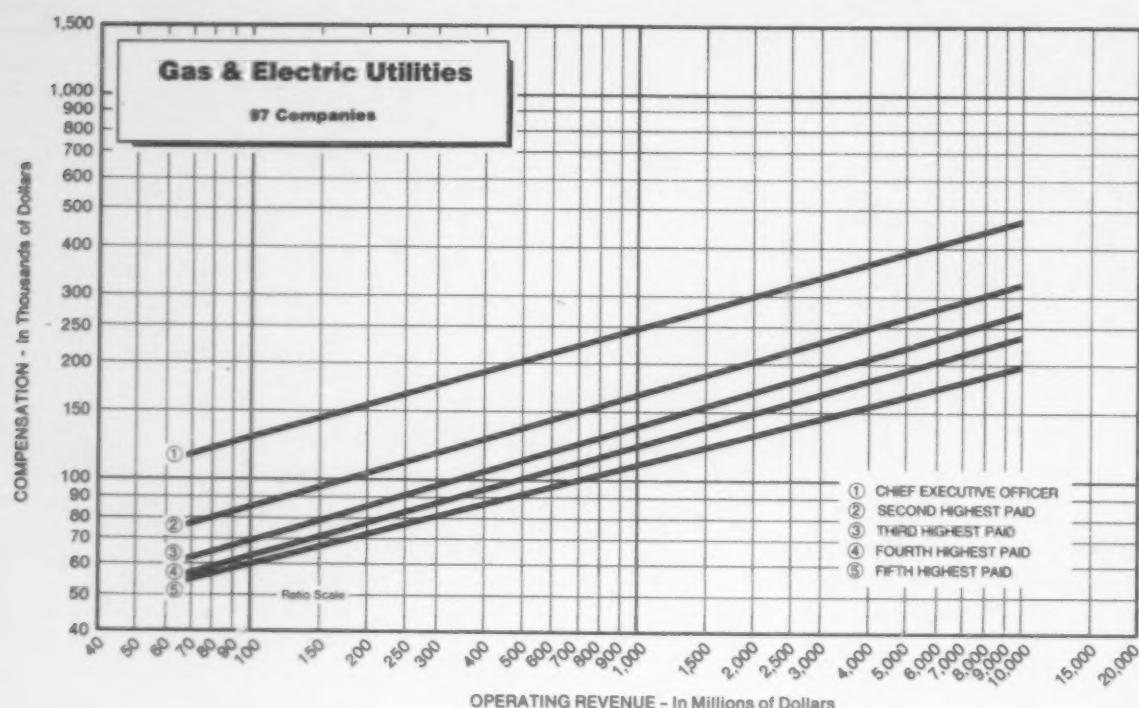
erating revenue for all five executives. The correlation coefficients for the five lines are, respectively: .81, .79, .78, .79, and .78.

The regression lines on the chart can be used to determine the average compensation of an executive at any level of operating revenue, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is operating revenue stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.4800 + 0.3045 \log X$	66%
Second	$\log Y = 1.3278 + 0.2951 \log X$	62
Third	$\log Y = 1.2935 + 0.2797 \log X$	60
Fourth	$\log Y = 1.2698 + 0.2712 \log X$	63
Fifth	$\log Y = 1.2856 + 0.2503 \log X$	61

Although total compensation and operating revenue are highly related, company size is not the sole determinant of compensation level. As the "coefficients of determination" (r²) above indicate, the variation in operating revenue statistically explains 60 to 66 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

Chart 31: Compensation of the Five Highest Paid Executives, by Company Operating Revenue



The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	67%	58% to 72%
Third highest	54	50 to 62
Fourth highest	50	44 to 56
Fifth highest	44	40 to 51

1984 Salary

There is also a positive relationship between base salary and operating revenue. The regression equations for the five top-paid executives are shown below. (Y is salary stated in thousands of dollars; X is operating revenue stated in millions of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.5385 + 0.2752 \log X$	72%
Second	$\log Y = 1.3771 + 0.2694 \log X$	68
Third	$\log Y = 1.3209 + 0.2622 \log X$	66
Fourth	$\log Y = 1.3202 + 0.2464 \log X$	66
Fifth	$\log Y = 1.3293 + 0.2286 \log X$	65

As the coefficients of determination (r^2) above indicate, the variation in operating revenue statistically explains 66 to 72 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	68%	59% to 72%
Third highest	54	51 to 62
Fourth highest	50	45 to 55
Fifth highest	45	40 to 50

These ratios are practically the same as the total compensation ratios.

1984 Bonus Awards

Thirty-five (36 percent) of the 97 gas and electric utilities have an "annual" executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. Only 25 percent (12) of the 48 companies with revenue under \$1 billion have a plan compared with 47 percent (23) of the 49 utilities with operating revenue of \$1 billion or more.

These plans have become much more common among gas and electric utilities over the past decade; in 1974 only 8 percent of a comparable group of 111 utilities had an annual incentive plan, and, in 1980, only 13 percent.²

Twenty-eight (80 percent) of the 35 utilities with a bonus plan made an award for 1984 performance; 29 paid a bonus for 1983.

Among the 28 companies that paid a 1984 bonus, 26 also paid an award for 1983, but two did not. Among six that paid no bonus for 1984, three paid a 1983 bonus and three paid no bonus in either year.

The 1984 bonus award was reported for the chief executive officers in 24 companies that paid a bonus. The median bonus is 30 percent of salary with the middle half ranging between 21 and 40 percent of base pay. (In 1983, the median bonus was 25 percent of salary for chief executive officers.)

Long-term Incentive Plans

Five (5 percent) of the 97 utilities have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is about the same proportion of utilities that had a plan five years ago; four (4 percent) of 106 companies reported a plan in 1980.³

The five plans are in the 74 companies with operating revenue of \$500 million or more. Two companies made a grant during 1984. The awards for nine executives were the equivalent of 18 to 119 percent of 1984 salary.

Seventeen (18 percent) of the gas and electric utilities have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a **performance share or unit plan**.⁴ All plans are in companies

²Top Executive Compensation 1974 Edition (out of print). The Conference Board, Report No. 640, 1974, p. 53; and Top Executive Compensation 1980 Edition, p. 49.

³For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

⁴For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

with \$500 million or more in operating revenue. In 1980, only three of 106 comparable utilities had a plan.⁵

Nine companies made a payment during 1984 to one or more of their five top-paid executives. The payments to 43 executives, converted to a percentage of salary, ranged from one to 116 percent; the median payment represented 16 percent of 1984 salary.

Nineteen (20 percent) of the companies have a **stock option plan**.⁶ Fifteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's, and two have only nonqualified options.

Twelve of the nineteen gas and electric utilities with a plan made a regular grant of stock options during 1984. Four of the plans granted *only* ISO's; three *only* nonqualified options; and five granted *both* ISO's and nonqualified options. Among the five plans that granted both ISO's and nonqualified options, four limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

Eleven utilities that granted options in 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 46 executives is the equivalent of 71 percent of base salary, with the middle half ranging between 50 and 115 percent of 1984 salary.

Stock-for-stock exercise (stock swaps) are provided for by ten (59 percent) of the 17 plans that grant ISO's, and by eleven (65 percent) of the 17 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven of the 17 plans that grant ISO's. Three of these limit SAR's to a small group of top management (essentially "insiders"); the other four grant SAR's to all option recipients. SAR's are provided by nine of the 17 plans that grant nonqualified options; three limit SAR's to a limited group of top executives; five grant SAR's to all nonqualified option recipients; and one company did not respond.

⁵Top Executive Compensation 1980 Edition, p. 50.

⁶For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 6

Commercial Banking

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 171 commercial banks, 40 percent of approximately all commercial banks with total deposits of \$300 million or more. These 171 banks are classified below according to total deposits at the end of 1984.

1984 Total Deposits	Banks	
	Number	Percent
\$5 billion and over	22	13%
\$2-4,999 billion	50	29
\$1-1,999 billion	39	23
600-999 million	28	16
500-599 million	13	8
300-499 million	19	11
Total	171	100%

Median total deposits are \$1.6 billion, with deposits of the middle half of the banks ranging between \$743 million and \$3.6 billion.

Pay Trends

On the average, total compensation for top executives in these banks for 1984 (which includes bonus awards) was 14 percent greater than in 1983. For example, in a sample of 128 chief executive officers for whom both 1983 and 1984 total compensation was available, the median increase was 14 percent with the middle half ranging from no change to a 24 percent increase.

For 21 percent of these chief executive officer positions, total compensation for 1984 was lower than in 1983 and another 4 percent registered no gain. Among the 75 percent that show an increase, the median is 17 percent with the middle half ranging between 10 and 30 percent.

Some of the increase in total compensation is the result of increased bonus payments. For example, 91 percent of the banks with a bonus plan paid a bonus for 1984 performance; 79 percent did so for 1983 performance. Bonus payments, as a percentage of base salary, were higher in 1984. For example, the median bonus for chief executive officers represented 34 percent of salary for 1984, and 26 percent of salary for 1983 performance. Finally, among 77 banks that paid a bonus for both 1984 and 1983, the median dollar increase for chief executive officers was 18 percent, with

the middle half ranging between no increase to a 46 percent increase.

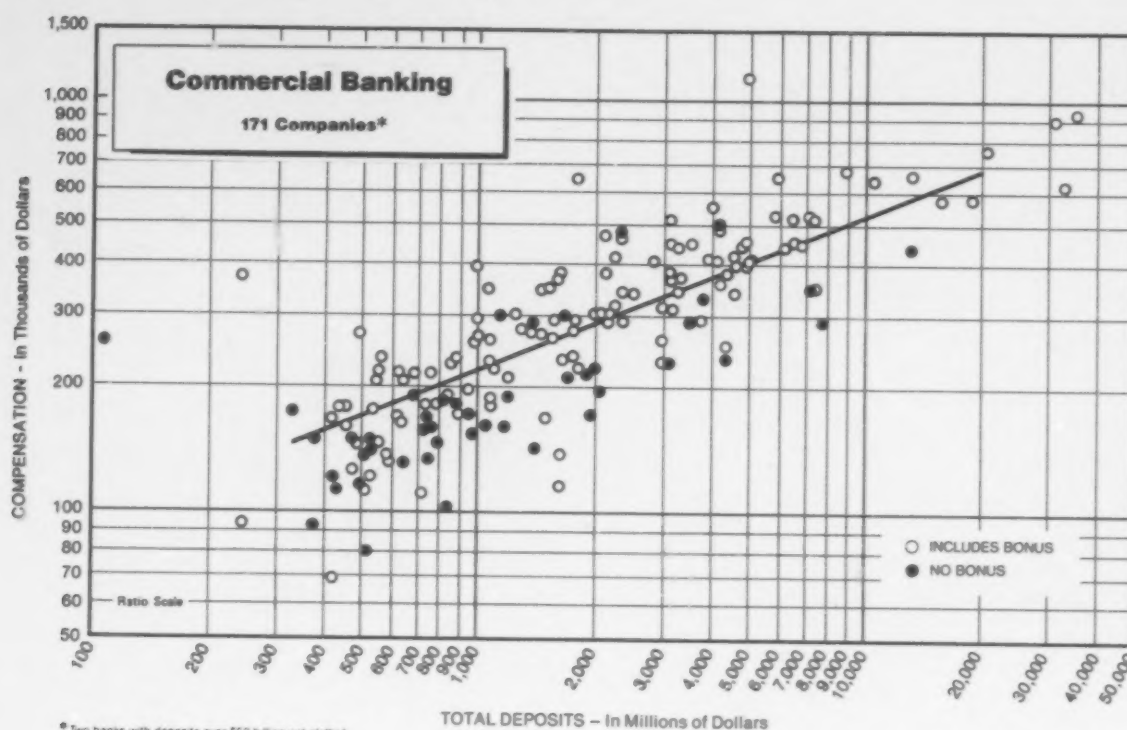
Total compensation also increased because of increases in base salary. For example, among the 127 banks for which both 1984 and 1983 base salary was available, the median increase for the chief executive officer position was 9 percent, with the middle half ranging between no increase to a 16 percent increase. For 13 percent of these chief executive positions, salary was lower in 1984 than in 1983, and for 12 percent, it was unchanged. Among the 75 percent that received an increase, the median is 13 percent, with the middle half between 8 and 18 percent.

As illustrated below, the 9 percent increase for 1984 continues the drop in the rate of salary increase for top executives during the last few years! Apparently this will continue, judging by the estimates obtained in May, 1985, of the average salary increase expected for the entire exempt population during 1985 and 1986.

Year	Number of Banks	Percentage Increase in Salary		
		Median	Middle 50 Percent Range	
Total Exempt Em- ployees				
1986 Estimate . . .	118	6.5%	6.0% to 7.0%	
1985 Estimate . . .	161	7.0	6.0 to 7.5	
Chief Executive Officers				
1984	127	9%	0% to 16%	
1983	149	9	0 to 15	
1981-1982	180	10	7 to 19	
1979-1981	140	27	15 to 40	
1977-1979	199	22	15 to 31	
1975-1977	213	17	7 to 26	

¹The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 57. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14. The 1975-1977 changes are from *Top Executive Compensation 1978 Edition*. The Conference Board, Report No. 753, 1978, p. 18.

Chart 32: Compensation of the Chief Executive, by Total Deposits



1984 Total Compensation

For each commercial bank, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation paid to each of the chief executive officers in this particular sample of 171 banks is shown in Chart 32. The median and middle 50 percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$274,000	\$179,000 to \$390,000
Second	189,000	116,000 to 255,000
Third	130,000	92,000 to 204,000
Fourth	115,000	82,000 to 179,000
Fifth	100,000	76,000 to 151,000

As the lines in Chart 33 suggest, there is a positive relationship between the level of total compensation and

total deposits for all five executives. The correlation coefficients for the five lines are, respectively: .80, .81, .84, .85, and .85.

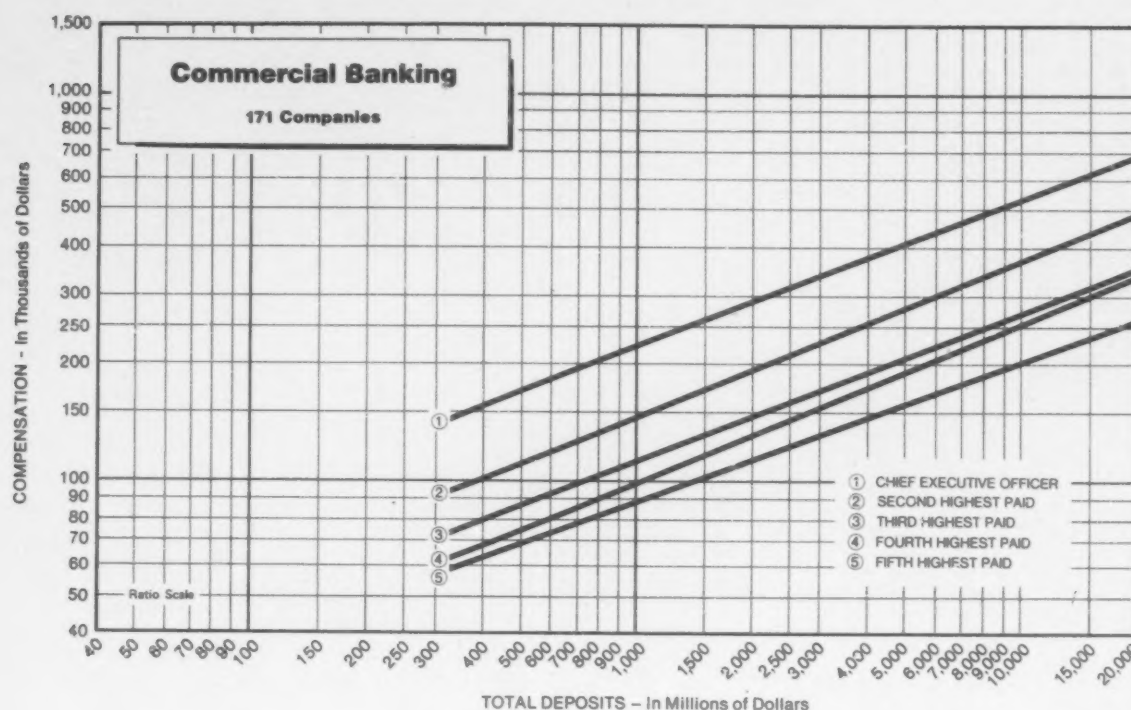
The regression lines on the chart can be used to determine the average compensation of an executive at any level of deposits, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is deposits stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.2199 + 0.3740 \log X$	64%
Second	$\log Y = 0.9848 + 0.3916 \log X$	65
Third	$\log Y = 0.8853 + 0.3883 \log X$	70
Fourth	$\log Y = 0.8030 + 0.3968 \log X$	73
Fifth	$\log Y = 1.7935 + 0.3843 \log X$	72

Although total compensation and total deposits are highly related, company size is not the sole determinant of compensation level. As the "coefficients of determination" (r²) above indicate, the variation in deposits statistically explains 64 to 73 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Chart 33: Compensation of the Five Highest Paid Executives, by Total Deposits



Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	68%	57% to 79%
Third highest	52	43 to 62
Fourth highest	45	39 to 53
Fifth highest	41	35 to 47

1984 Salary

There is also a positive relationship between base salary and total deposits. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is total deposits stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.3551 + 0.3016 \log X$	62%
Second	$\log Y = 1.1335 + 0.3177 \log X$	62
Third	$\log Y = 1.0309 + 0.3178 \log X$	72
Fourth	$\log Y = 0.9629 + 0.3229 \log X$	73
Fifth	$\log Y = 0.9580 + 0.3111 \log X$	73

As the coefficients of determination (r^2) above indicate, the variation in total deposits statistically explains 62 to 73 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	70%	58% to 81%
Third highest	54	46 to 63
Fourth highest	47	41 to 55
Fifth highest	43	36 to 49

These ratios are practically the same as the total compensation ratios.

1984 Bonus Awards

Eighty-one percent (139) of the 171 banks have an "annual" executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans become more common as the size of the bank increases. Fifty-three percent of the banks with total deposits under \$500 million have a plan, compared with 65 percent of the banks with deposits in the \$500 million

Table 8: 1984 Bonus Awards and 1983 Median Bonus

1984 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
75% or more	7	6%	3	2%	3	2%	2	2%	2	2%
50-74	15	12	12	10	9	7	9	7	8	7
40-49	22	18	22	17	15	12	11	9	9	8
30-39	35	28	31	25	30	24	27	22	23	19
20-29	21	17	26	21	29	23	37	30	27	23
10-19	15	12	20	16	26	21	23	19	39	33
Less than 10%	10	8	12	10	12	10	14	11	11	9
Total	125	100%	126	100%	124	100%	123	100%	119	100%
Median Bonus		34%		30%		29%		25%		23%
Middle 50% Range		23-46%		20-41%		17-37%		18-37%		15-34%
1983 Median Bonus		26%		24%		22%		21%		19%

to \$1 billion range and 94 percent of the banks with deposits of \$1 billion or more.

These plans have become much more common among banks over the past decade; in 1974 only 25 percent of a comparable group of banks had an annual incentive plan.² In 1980, 55 percent had a plan.³

Ninety-one percent (127) of the 139 banks with a bonus plan made an award for 1984 performance; 79 percent paid a bonus for 1983. Among the 127 plans that paid a 1984 bonus, most (104) also paid a bonus for 1983, but 23 did not. Among eight banks that paid no bonus for 1984, four paid a 1983 bonus; four paid no bonus in either year.

As Table 8 indicates, the median 1984 award for chief executive officers (34 percent of salary), is somewhat higher than that of the other four executives (23 to 30 percent of salary). Compared with bonus awards for 1983, the 1984 medians are four to eight percentage points higher.⁴

For each of the five executives, the bonus award as a percentage of salary increases with company size (Table 9).⁵

²Top Executive Compensation 1974 Edition (out of print). The Conference Board, Report No. 640, 1974, p. 58.

³Top Executive Compensation 1980 Edition, p. 53.

⁴Top Executive Compensation 1985 Edition, p. 61.

⁵Data are derived from regression equations based on the pay of executives in 110 banks with a bonus plan that paid a bonus. The equations are shown below; the coefficient of determination is shown in parentheses.

Total Compensation

Highest paid	$\log Y = 1.2374 + 0.3650 \log X$	(75%)
Second	$\log Y = 1.0144 + 0.3797 \log X$	(74%)
Third	$\log Y = 0.9530 + 0.3653 \log X$	(77%)
Fourth	$\log Y = 0.8547 + 0.3753 \log X$	(81%)
Fifth	$\log Y = 0.8521 + 0.3621 \log X$	(82%)

Base Salary

Highest paid	$\log Y = 1.3052 + 0.3080 \log X$	(67%)
Second	$\log Y = 1.0999 + 0.3219 \log X$	(70%)
Third	$\log Y = 1.0504 + 0.3062 \log X$	(73%)
Fourth	$\log Y = 0.9422 + 0.3217 \log X$	(76%)
Fifth	$\log Y = 0.9836 + 0.2961 \log X$	(78%)

The comparison with 1983 suggests that bonus awards, as a percentage of salary, are somewhat lower for 1984 performance, when company size is taken into account.⁶

In general, banks that have an annual bonus plan pay about the same in base salary to their top executives as do banks that have no bonus plan. Therefore, the total compensation of bonus recipients is higher than the total compensation (salary) of executives in companies that have no bonus plan, by roughly the percentages shown in Table 9.

Table 9: 1984 and 1983 Bonus Awards (as Percent of Salary), by Company Size

Executive	Total Deposits		
	\$743 Million	\$1.6 Billion	\$3.6 Billion
Chief Executive			
1984 Bonus (%)	31%	36%	41%
Salary	\$170,000	\$212,000	\$268,000
1983 Bonus (%)	26%	30%	37%
Second Highest Paid			
1984 Bonus (%)	25%	30%	37%
Salary	\$116,000	\$145,000	\$182,000
1983 Bonus (%)	20%	26%	33%
Third Highest Paid			
1984 Bonus (%)	22%	28%	33%
Salary	\$90,000	\$112,000	\$143,000
1983 Bonus (%)	17%	23%	30%
Fourth Highest Paid			
1984 Bonus (%)	19%	26%	32%
Salary	\$80,000	\$100,000	\$128,000
1983 Bonus (%)	16%	21%	26%
Fifth Highest Paid			
1984 Bonus (%)	16%	23%	29%
Salary	\$73,000	\$91,000	\$116,000
1983 Bonus (%)	14%	19%	27%

⁶Top Executive Compensation 1985 Edition, p. 61.

Long-term Incentive Plans

Twenty-one (12 percent) of the 171 banks have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. Four years ago, only 7 percent (17) of a group of 248 banks had a plan.⁷

Restricted stock plans are slightly more common among larger banks. For example, 17 percent of the banks with deposits of \$1 billion or more have a plan, compared with 7 percent of the banks with deposits under \$1 billion.

Fifteen banks made a grant of restricted stock during 1984 to one or more of their five top-paid executives. The median grant to 63 executives, as a percentage of base salary, was 23 percent with the middle half ranging between 7 and 49 percent of 1984 salary.

Thirty-six (21 percent) of the 171 banks have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a **performance share or unit plan**.⁸ In 1980, only 9 percent of 248 banks had a plan.⁹ These plans are most common among the largest banks.

Ten banks made a payment during 1984 under these plans to some of the five top-paid executives. Payments to 40 executives, converted to a percentage of 1984 salary, ranged from 8 percent to 142 percent, with the median payment representing 33 percent of base salary, and the middle 50-percent range from 23 to 49 percent.

Fifty-seven percent (98) of the banks have a **stock option plan**.¹⁰ Plans become more common as the size of the bank increases; for example, only 28 percent of the banks with deposits under \$1 billion have a plan compared with 76 percent of the banks with deposits of \$1 billion or more.

Among the 98 banks with a stock option plan, 67 percent (66) provide for grants of *both* ISO's and nonqualified options; 23 grant only ISO's, and nine only nonqualified options.

Fifty-nine of the 98 banks with a plan made a regular grant of stock options during 1984. Fifteen of the banks granted *only* ISO's, ten *only* nonqualified options, and thirty-three granted *both* ISO's and nonqualified options. Among the 33 plans that granted both ISO's and nonqualified options, 24 (73 percent) limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

⁷Top Executive Compensation 1980 Edition, p. 55. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

⁸For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

⁹Top Executive Compensation 1980 Edition, p. 54.

¹⁰For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

All of the 59 banks that granted options in 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 274 executives is the equivalent of 71 percent of base salary, with the middle half ranging between 43 and 117 percent of 1984 base salary.

One or more of the five top-paid executives in 32 banks exercised a stock option (or SAR) during 1984. The net gain realized in cash or stock (market value less option price) for 87 executives is shown below, converted to a percentage of 1984 base salary.

Gain at Exercise (Percent of Salary)	Executives
200-674%	3
100-199	11
50-99	19
30-49	9
20-29	14
10-19	12
Less than 10%	19
Total	87

The median gain is the equivalent of 29 percent of 1984 salary with the middle half ranging between 13 and 70 percent of salary. The median for chief executive officers is 26 percent of salary; for the second highest paid, 29 percent; for the third, 34 percent; for the fourth, 29 percent; and for the fifth highest paid, 28 percent of base salary.

The actual dollar gain is shown below:

Dollar Gain at Exercise	Executives
\$500,000 and over	3
200,000-499,000	11
100,000-199,000	11
50,000-99,000	21
25,000-49,000	14
10,000-24,000	12
Less than \$10,000	15
Total	87

The median gain is \$54,000, with the middle half ranging between \$18,000 and \$122,000. The median gain for 19 chief executive officers and 16 second highest paid, is \$55,000; for 20 third highest paid, \$43,000; for 17 fourth highest paid, \$40,000; and for 15 fifth highest paid, \$52,000.

Stock-for-stock exercise (stock swaps) are provided for by 47 (53 percent) of the 89 plans that grant ISO's, and by 38 (51 percent) of the 75 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 32 (36 percent) of the 89 plans that grant ISO's. Ten limit SAR's

to a small group of top management (essentially "insiders"); the other 22 plans grant SAR's to all ISO recipients. SAR's are provided by 38 (51 percent) of the 75 plans that grant

nonqualified options. Sixteen limit SAR's to a small group of top management; the other 22 plans grant SAR's to all nonqualified option recipients.

Chapter 7 Insurance

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 132 insurance companies, 41 percent of approximately all life insurance and property and casualty insurance companies with premium income of \$50 million or more. These 132 carriers are classified below according to total premium income from all lines during 1984.

1984 Premium Income	Total		Property Life and Casualty
	Companies	Life	
\$2 billion and over	17	10	7
1-1,999 billion	11	7	4
500-999 million	17	12	5
300-499 million	14	8	6
200-299 million	18	9	9
100-199 million	37	21	16
99 million and under	18	12	6
Total	132	79	53

The median premium income for all companies is \$257 million, with the middle half ranging from \$136 million to \$875 million. For life insurance companies, median premium income is \$280 million compared with \$238 million for property and casualty companies. For the 62 stock companies, median premium income is \$230 million; for the 70 mutual companies, \$280 million.

Pay Trends

On the average, total compensation for 1984 (which includes bonus awards) was ten percent greater than in 1983 for top executives in these insurance companies. For example, in a sample of 110 chief executive officers for whom both 1983 and 1984 total compensation was available, the median increase was ten percent, with the middle half ranging from no increase to an increase of 16 percent. For 22 percent of these chief executive officer positions, total compensation for 1984 was lower than in 1983 and another five percent registered no gain. Among the 73 percent that show a gain, the median increase was 13 percent, with the middle half ranging between 9 and 22 percent.

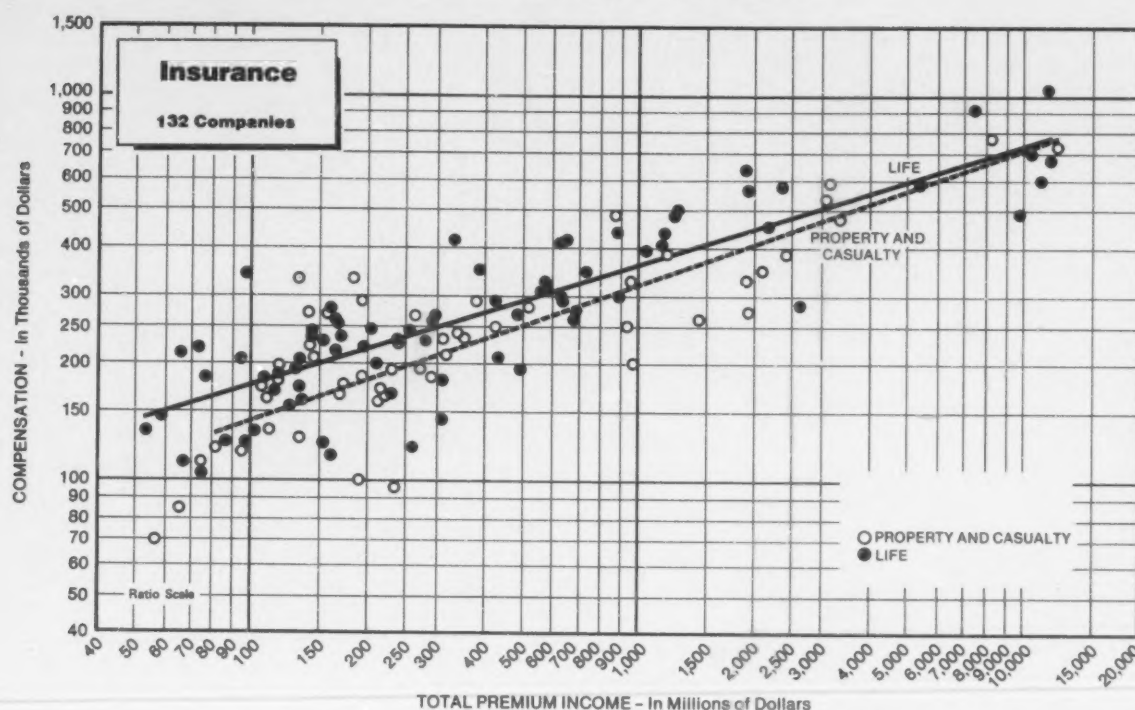
Although total compensation increased, bonus payments did not. For example, 78 percent of the carriers with a bonus plan paid a bonus for 1984 performance, while 84 percent did so for 1983 performance. In addition, bonus payments, as a percentage of base salary were somewhat lower. For example, the median bonus for chief executive officers represented 25 percent of salary for 1984, and 29 percent of salary for 1983 performance. However, among 50 companies that paid a bonus for both 1984 and 1983, the median dollar bonus for chief executive officers showed a two percent increase, with the middle half ranging between a cut of 17 percent and a 43 percent increase.

Total compensation increased because of increases in base salary. For example, among the 110 companies for which both 1984 and 1983 base salary was available, the median increase for the chief executive officer position was 10 percent, with the middle half ranging between a five percent and a 14 percent increase. For 12 percent of these chief executive positions, salary was lower in 1984 than in 1983, and for six percent it was unchanged. Among the 82 percent that received an increase, the median is 11 percent, with the middle half between 5 and 15 percent.

As illustrated below, the 10 percent increase for 1984 reverses the drop in the rate of salary increase for top executives during the last few years.¹ Apparently this will not continue, judging by the estimates obtained in May, 1985, of the average salary increase expected for the entire exempt population during 1985 and 1986.

¹The 1983 changes are from *Top Executive Compensation 1985 Edition. The Conference Board, Report No. 854, 1984, p. 63.* The 1982 changes are from *Top Executive Compensation 1983 Edition. The Conference Board, Report No. 840, 1983, p. 7.* The 1979-1981 changes are from *Top Executive Compensation 1982 Edition. The Conference Board, Report No. 827, 1982, p. 11.* The 1977-1979 changes are from *Top Executive Compensation 1980 Edition. The Conference Board, Report No. 793, 1980, p. 14.* The 1975-1977 changes are from *Top Executive Compensation 1978 Edition. The Conference Board, Report No. 753, 1978, p. 18.*

Chart 34: Compensation of the Chief Executive, by Total Premium Income



Year	Number of Companies	Percentage Increase in Salary		
		Median	Middle 50 Percent Range	
Total Exempt Em- ployees				
1986 Estimate	85	6.0%	6.0% to 7.0%	
1985 Estimate	120	6.5	6.0 to 7.0	
Chief Executive Officers				
1984	110	10%	5% to 14%	
1983	106	6	0 to 12	
1981-1982	111	10	1 to 17	
1979-1981	88	26	17 to 35	
1977-1979	135	22	13 to 32	
1975-1977	145	16	10 to 23	

1984 Total Compensation

For each insurance company, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation paid to each of the chief executive officers in this particular sample of 132 insurance companies is shown in Chart 30. The median and middle 50 percent range of the

pay of these chief executive officers and the other four executives are shown below:

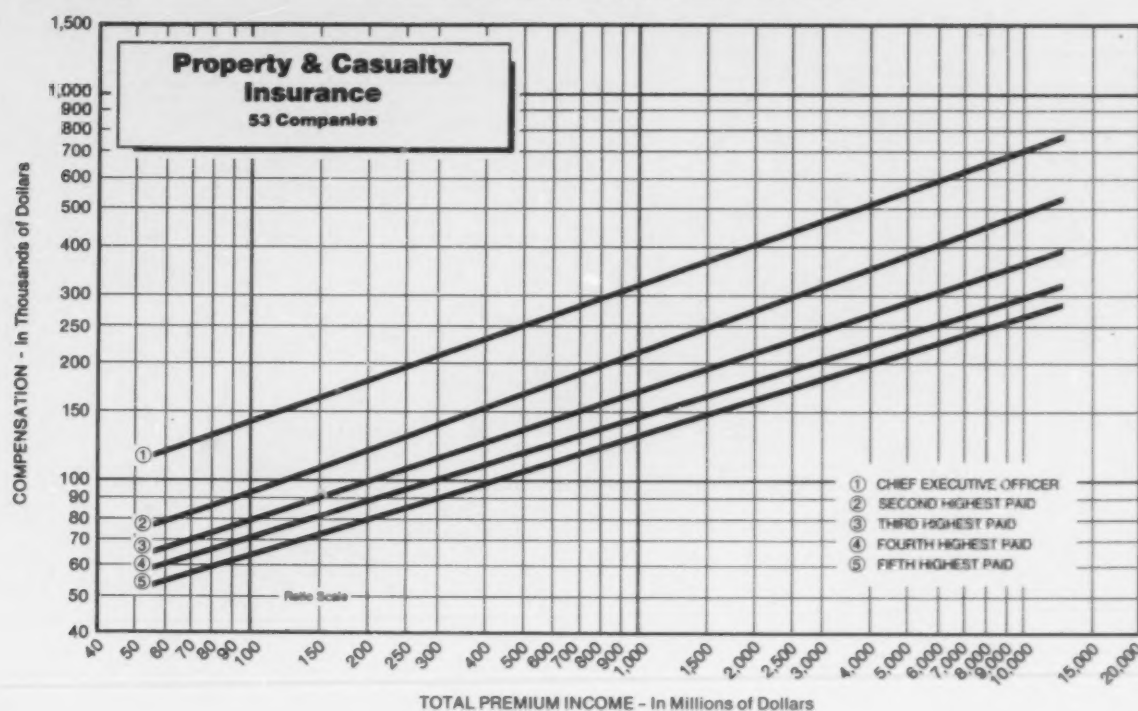
Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$236,000	\$174,000 to \$333,000
Second	155,000	105,000 to 231,000
Third	130,000	91,000 to 182,000
Fourth	109,000	79,000 to 152,000
Fifth	99,000	70,000 to 139,000

As Charts 34, 35 and 36 indicate, there is a positive relationship between total premium income and total compensation for the chief executive officers in life insurance companies and in property and casualty companies.

The regression equations for the executives in the 53 property and casualty companies are shown below. As the coefficients of determination (r^2) indicate, the variation in total premium income statistically explains 66 to 75 percent of the variation in total compensation of the five top-paid executives.

Compensation Rank	Regression Formula	r^2
Highest paid . . .	$\log Y = 1.4517 + 0.3504 \log X$	69%
Second	$\log Y = 1.2344 + 0.3665 \log X$	67
Third	$\log Y = 1.2394 + 0.3283 \log X$	62
Fourth	$\log Y = 1.2183 + 0.3158 \log X$	65
Fifth	$\log Y = 1.2059 + 0.3037 \log X$	67

Chart 35: Compensation of the Five Highest Paid Executives, by Total Premium



The regression equations for the five top-paid executives in the 79 life insurance companies are shown below. The coefficients of determination (r^2) indicate that the variation in premium income statistically explains 74 to 77 percent of the variation in total compensation of the executives.²

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.6054 + 0.3170 \log X$	75%
Second	$\log Y = 1.3348 + 0.3515 \log X$	75
Third	$\log Y = 1.3227 + 0.3213 \log X$	74
Fourth	$\log Y = 1.2617 + 0.3227 \log X$	77
Fifth	$\log Y = 1.2222 + 0.3213 \log x$	77

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

²The regression equations for the five executives when all companies are combined are shown below; the percent in parentheses is the coefficient of determination.

Highest paid	$\log Y = 1.4943 + 0.3552 \log X$	(69%)
Second	$\log Y = 1.2802 + 0.3589 \log X$	(69%)
Third	$\log Y = 1.2791 + 0.3271 \log X$	(68%)
Fourth	$\log Y = 1.2332 + 0.3220 \log X$	(70%)
Fifth	$\log Y = 1.1990 + 0.3176 \log X$	(70%)

In each case, Y is total compensation stated in *thousands* of dollars; X is total premium income stated in *millions* of dollars.

Total Compensation
as a Percentage of Chief
Executive's Total Compensation

Compensation Rank	Median	Middle 50 Percent Range
Second highest	67%	57% to 76%
Third highest	54	46 to 62
Fourth highest	47	40 to 54
Fifth highest	44	36 to 49

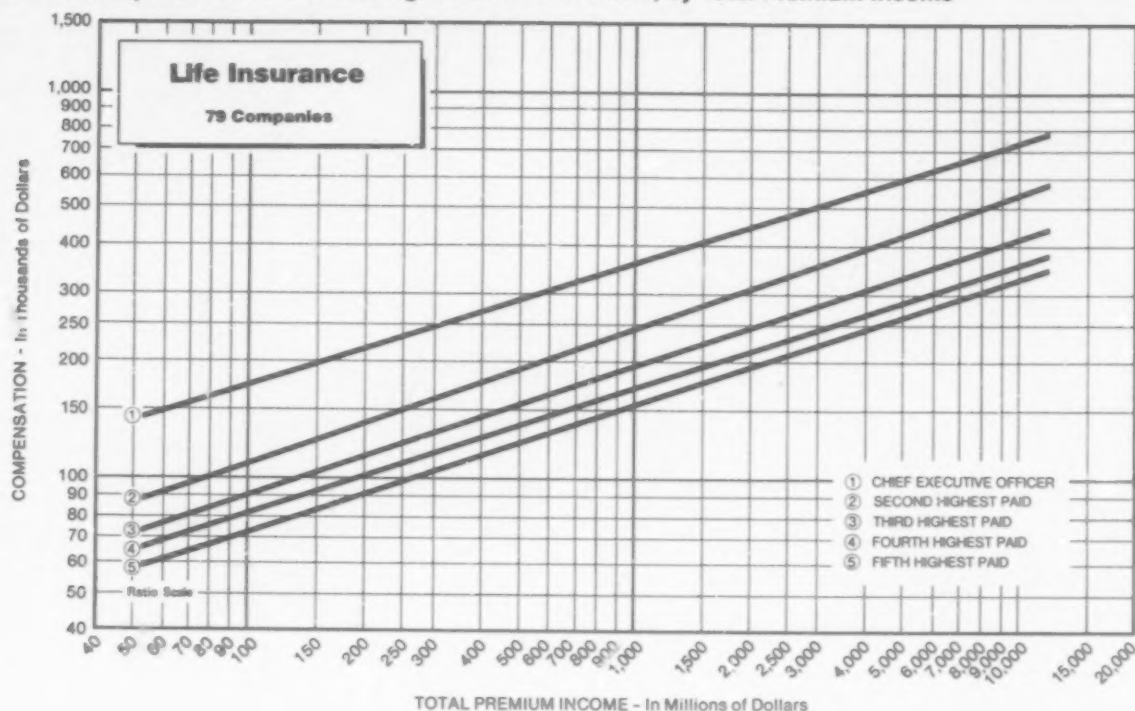
These ratios are essentially the same in life insurance companies and property and casualty companies.

1984 Salary

There is a positive relationship between base salary and total premium income. The regression equations for executives in the 53 property and casualty companies are shown below. As the coefficients of determination (r^2) indicate, the variation in premium income statistically explains 67 to 71 percent of the variation in base salary.

Compensation Rank	Regression Formula	r^2
Highest paid ..	$\log Y = 1.4906 + 0.3207 \log X$	68%
Second	$\log Y = 1.2857 + 0.3318 \log X$	71
Third	$\log Y = 1.2736 + 0.3024 \log X$	67
Fourth	$\log Y = 1.2875 + 0.2738 \log X$	67
Fifth	$\log Y = 1.2433 + 0.2771 \log X$	70

Chart 36: Compensation of the Five Highest Paid Executives, by Total Premium Income



The regression equations for the executives in the 79 life insurance companies are shown below. The coefficients of determination indicate that the variation in premium income statistically explains 73 to 78 percent of the variation in base salary.¹

Compensation Rank	Regression Formula	r ²
Highest paid	$\log Y = 1.6474 + 0.2725 \log X$	73%
Second	$\log Y = 1.3765 + 0.3135 \log X$	74
Third	$\log Y = 1.3511 + 0.2895 \log X$	77
Fourth	$\log Y = 1.3167 + 0.2829 \log X$	78
Fifth	$\log Y = 1.2855 + 0.2788 \log X$	78

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	68%	57% to 78%
Third highest	55	48 to 64
Fourth highest	50	41 to 55
Fifth highest	45	37 to 50

These ratios are practically the same as the total compensation ratios.

¹The regression equations for the five executives when all companies are combined are shown below; the percent in the parentheses is the coefficient of determination.

1984 Bonus Awards

Eighty-eight (67 percent) of the 132 insurance companies have an annual executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans have become much more common among insurance companies over the past decade; in 1974 only 35 percent of a roughly comparable group of life insurance, fire, marine and casualty companies had an annual incentive plan.⁴ By 1980, 52 percent had a plan.⁵

In general, an annual bonus plan is more common as company size increases. For example, 85 percent of the carriers with premium income of \$1 billion or more have a plan, compared with 66 percent of the companies with premium income of \$100 million to \$1 billion and 44 percent of the companies with premium income of \$50 million to \$100 million.

Highest paid	$\log Y = 1.4931 + 0.3183 \log X$	(68%)
Second	$\log Y = 1.2849 + 0.3340 \log X$	(72%)
Third	$\log Y = 1.2922 + 0.3009 \log X$	(69%)
Fourth	$\log Y = 1.2367 + 0.3005 \log X$	(73%)
Fifth	$\log Y = 1.2231 + 0.2899 \log X$	(72%)

In each case Y is salary stated in thousands of dollars and X is total premium income stated in millions of dollars.

⁴Top Executive Compensation 1974 Edition (out of print). The Conference Board, Report No. 640, 1974, p. 62.

⁵Top Executive Compensation 1980 Edition, p. 59.

⁶Top Executive Compensation 1983 Edition, p. 60.

Table 10: 1984 Bonus Awards and 1983 Median Bonus

1984 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
60% or more	5	7%	1	1%	1	1%	1	1%	1	2%
50-59	4	6	4	6	1	1	-	-	1	2
40-49	8	11	4	6	6	9	5	7	4	6
30-39	12	17	13	19	10	15	9	13	9	13
20-29	13	19	15	22	19	28	17	24	15	22
10-19	20	29	20	29	19	28	25	36	22	33
Less than 10%	8	11	11	16	12	18	13	19	15	22
Total	70	100%	68	100%	68	100%	70	100%	67	100%
Median Bonus		25%		24%		22%		17%		18%
Middle 50% Range		15-40%		14-33%		12-31%		11-26%		10-27%
1983 Median Bonus		29%		24%		24%		20%		20%

Plans are found with the same frequency among property and casualty companies (66 percent) and among life companies (67 percent). A larger proportion of stock (75 percent) than mutual (59 percent) companies have a plan.

Seventy-eight percent (69) of the 88 carriers with a bonus plan made an award for 1984 performance; 84 percent paid a bonus for 1983. Among the 69 companies that paid a 1984 bonus, most (64) also paid a 1983 bonus but a few (five) did not. Among 17 companies that paid no bonus for 1984, ten paid a bonus for 1983; the other seven paid no bonus in either year.

As Table 10 indicates, the median award for chief executive officers (25 percent of salary) is somewhat higher than that of the other four executives (17 to 24 percent). Compared with bonus awards for 1983, the 1984 medians are slightly lower.^a

For each of the top five executives, the bonus award tends to increase, as a percentage of salary, with company size (Table 11).⁷ Again, the 1984 medians are slightly lower at each size level than the 1983 medians.⁸

^aData are derived from regression equations based on the pay of executives in 70 companies with a bonus plan that paid a bonus for 1983. The equations are shown below, the coefficient of determination is in parentheses.

Total Compensation

Highest paid	$\log Y = 1.6435 + 0.3095 \log X$	(72%)
Second	$\log Y = 1.4087 + 0.3317 \log X$	(73%)
Third	$\log Y = 1.3651 + 0.3128 \log X$	(70%)
Fourth	$\log Y = 1.3293 + 0.3043 \log X$	(70%)
Fifth	$\log Y = 1.2738 + 0.3069 \log X$	(71%)

Base Salary

Highest paid	$\log Y = 1.5346 + 0.3037 \log X$	(66%)
Second	$\log Y = 1.3226 + 0.3232 \log X$	(75%)
Third	$\log Y = 1.3008 + 0.2999 \log X$	(71%)
Fourth	$\log Y = 1.2413 + 0.3019 \log X$	(73%)
Fifth	$\log Y = 1.2470 + 0.2867 \log X$	(71%)

^aTop Executive Compensation 1983 Edition, p. 60.

In general, insurance companies that have a bonus plan pay about the same in base salary to their top executives as do carriers that do not have a bonus plan. Therefore, the total compensation of bonus recipients is higher than the total compensation (salary) of executives in companies with no bonus, by roughly the percentages shown in Table 11.

Long-term Incentive Plans

Eight (13 percent) of the 62 stock companies have a restricted stock plan under which contingent grants of com-

Table 11: 1984 and 1983 Bonus Awards (as Percent of Salary), by Company Size

Executive	Total Premium Income		
	\$136 Million	\$257 Million	\$875 Million
Chief Executive			
1984 Bonus (%)	25%	27%	32%
Salary	\$163,000	\$194,000	\$272,000
1983 Bonus (%)	32%	32%	34%
Second Highest Paid			
1984 Bonus (%)	17%	20%	26%
Salary	\$111,000	\$133,000	\$190,000
1983 Bonus (%)	26%	28%	29%
Third Highest Paid			
1984 Bonus (%)	19%	20%	23%
Salary	\$92,000	\$110,000	\$157,000
1983 Bonus (%)	24%	25%	27%
Fourth Highest Paid			
1984 Bonus (%)	15%	18%	23%
Salary	\$80,000	\$96,000	\$136,000
1983 Bonus (%)	24%	23%	25%
Fifth Highest Paid			
1984 Bonus (%)	12%	16%	22%
Salary	\$75,000	\$89,000	\$124,000
1983 Bonus (%)	18%	19%	23%

pany stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is a somewhat greater proportion of companies with a plan than in 1980; eight (9 percent) of 94 stock companies reported a plan then.⁹ The incidence of these plans is not related to company size.

Six stock companies made a grant of restricted stock during 1984 to one or more of their five top-paid executives. The median grant to 23 executives, as a percentage of base salary, was 41 percent with the middle half ranging between 32 and 62 percent of 1984 salary.

Twenty-six (20 percent) of the 132 insurance companies have an executive incentive plan, usually called a **performance share or unit plan**, based on the achievement of long-term corporate financial goals.¹⁰ In 1980, only 8 percent (14) of 174 carriers had a plan.¹¹ Similarly, 36 percent of the 45 companies with premium income of \$500 million or more have a plan, but only 11 percent of the 87 smaller carriers.

During 1984, fourteen companies made a payment under these plans to some of the five top-paid executives. As a percentage of 1984 salary, payments to these 52 executives ranged from 2 to 78 percent, with the median payment representing 17 percent of base salary.

Fifty percent (31) of the 62 stock companies have a **stock option plan**,¹² including 80 percent of the companies with premium income of \$1 billion or more but only 45 percent

of the smaller stock companies. Seventeen (55 percent) of the plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; eleven grant only ISO's and three, only nonqualified options.

Sixteen of the 31 stock companies with a plan made a regular grant of stock options during 1984. Seven of the plans granted *only* ISO's; two granted *only* nonqualified options; the other seven granted *both* ISO's and nonqualified options. Among the 7 plans that granted *both* ISO's and nonqualified options, five limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

All of the 16 stock companies that granted options in 1984 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 80 executives is the equivalent of 49 percent of base salary, with the middle half ranging between 35 and 80 percent of 1984 base salary.

One or more of the five top-paid executives in ten stock companies exercised a stock option (or SAR) during 1984. The median net gain realized in cash or stock (market value less option price) for 30 executives is the equivalent of 17 percent of 1984 salary, with the middle half ranging between 8 and 39 percent of base salary. The median dollar gain was \$45,000 with the middle half ranging between \$17,000 and \$84,000.

Stock-for-stock exercise (stock swaps) are provided for by eight (29 percent) of the 28 plans that grant ISO's, and by seven (35 percent) of the 20 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine (32 percent) of the 28 plans that grant ISO's. Six of these plans limit SAR's to a small group of top executives (essentially "insiders"); the other three plans grant SAR's to all ISO recipients. SAR's are provided by five (25 percent) of the 20 plans that grant nonqualified options. Three plans limit SAR's to a small group of top management; the other two grant SAR's to all nonqualified option recipients.

⁹Top Executive Compensation 1980 Edition, p. 80. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

¹⁰For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

¹¹Top Executive Compensation 1980 Edition, p. 60.

¹²For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 8 Construction

INFORMATION ABOUT THE 1984 compensation of their five highest paid executives was obtained from 67 construction companies, 34 percent of the 200 largest! These 67 construction companies are classified below according to 1984 sales volume.

1984 Sales	Number of Companies	Companies Whose Stock is:	
		Traded	Not Traded
\$500 million and over	14	10	4
200-499 million	12	3	9
100-199 million	22	9	13
50-99 million	10	1	9
Less than 50 million	9	-	9
Total	67	23	44

The median sales for the group is \$152 million, with the middle half ranging between \$96 million and \$422 million.

Most (44) of the companies do not have stock traded on an organized exchange. They are relatively small companies and are engaged primarily in construction, with little or no design activity. The median sales volume of the group is \$110 million.

The 23 publicly held companies are larger; their median sales volume is \$450 million.

Pay Trends

On the average, total compensation for 1984 (which includes bonus awards) was seven percent greater than in 1983 for top executives in these construction companies. For example, in a sample of 47 chief executive officers for whom both 1983 and 1984 total compensation was available, the median company reported a seven percent increase, with the middle half ranging from a cut of 1 percent to an increase of 22 percent. For 28 percent of these chief executive officer positions, total compensation for 1984 was lower than for 1983 and another 4 percent registered no gain.

Among the 68 percent that show an increase, the median is 13 percent with the middle half ranging between 6 and 32 percent.

Some of the increase in total compensation is the result of increased bonus payments. For example, more companies with a bonus plan paid a bonus: 77 percent for 1984 and 67 percent for 1983. As a percentage of base salary, the chief executive officers' median bonus increased from 43 to 45 percent, while the median bonus for the other four positions was somewhat lower in 1984 than in 1983. However, among companies that paid a bonus for both 1984 and 1983, the typical chief executive's bonus decreased by one percent.

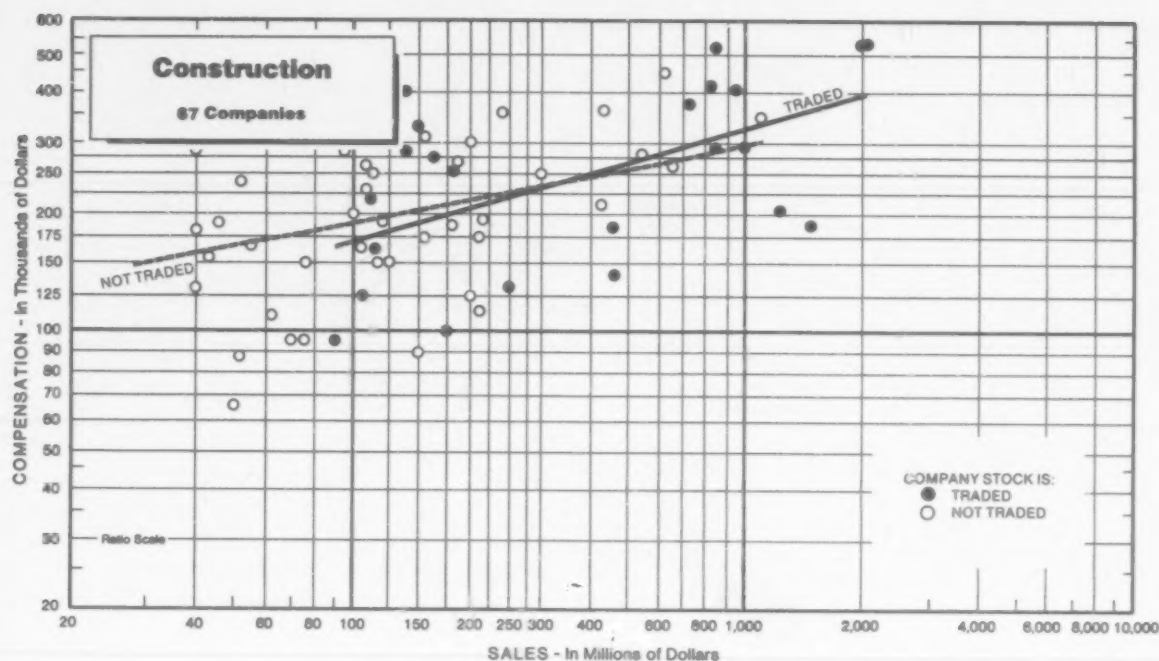
Total compensation also increased because of increases in base salary. For example, among the 46 companies for which both 1984 and 1983 base salary were available, the median increase for the chief executive position was 5 percent, with the middle half ranging between no increase and a 14 percent increase. For 17 percent of these chief executive positions, salary was lower in 1984 than in 1983, and for 11 percent it was unchanged. Among the 72 percent that received an increase, the median is 12 percent, with the middle half between 5 and 16 percent.

As illustrated below, the 5 percent increase for 1984 is a slight upturn in the *rate* of salary increase reported in prior years for top executives.² Apparently increases will be slightly higher during the next few years, judging by the estimates obtained in May, 1985, of the average salary increase expected for the entire exempt population during 1985 and 1986.

²The 1983 data are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, p. 69. The 1982 data are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, p. 62. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 63. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report 793, 1980, p. 66. The 1975-1977 changes are from *Top Executive Compensation 1978 Edition*. The Conference Board, Report No. 753, 1978, p. 79.

¹"ENR 400 Largest Construction Contractors 1983." *Engineering News-Record*, April 19, 1984, p. 64.

Chart 37: Compensation of the Chief Executive, by Company Sales



Year	Number of Companies	Percentage Increase in Salary		
		Median	Middle 50 Percent Range	
Total Exempt Employees				
1986 Estimate	60	6.0%	5.0% to	7.0%
1985 Estimate	61	5.0	5.0 to	6.5
Chief Executive Officers				
1984	46	5%	0% to	14%
1983	48	4	0 to	14
1981-1982	52	8	0 to	12
1979-1981	34	27	15 to	43
1977-1979	47	19	10 to	31

1984 Total Compensation

For each construction company, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1984 total compensation of each of the five highest paid executives in each company is measured as the sum of 1984 salary and 1984 bonus award. The total compensation paid to each of the chief executive officers in this particular sample of 67 construction companies is shown in Chart 37. The median and middle 50 percent range of

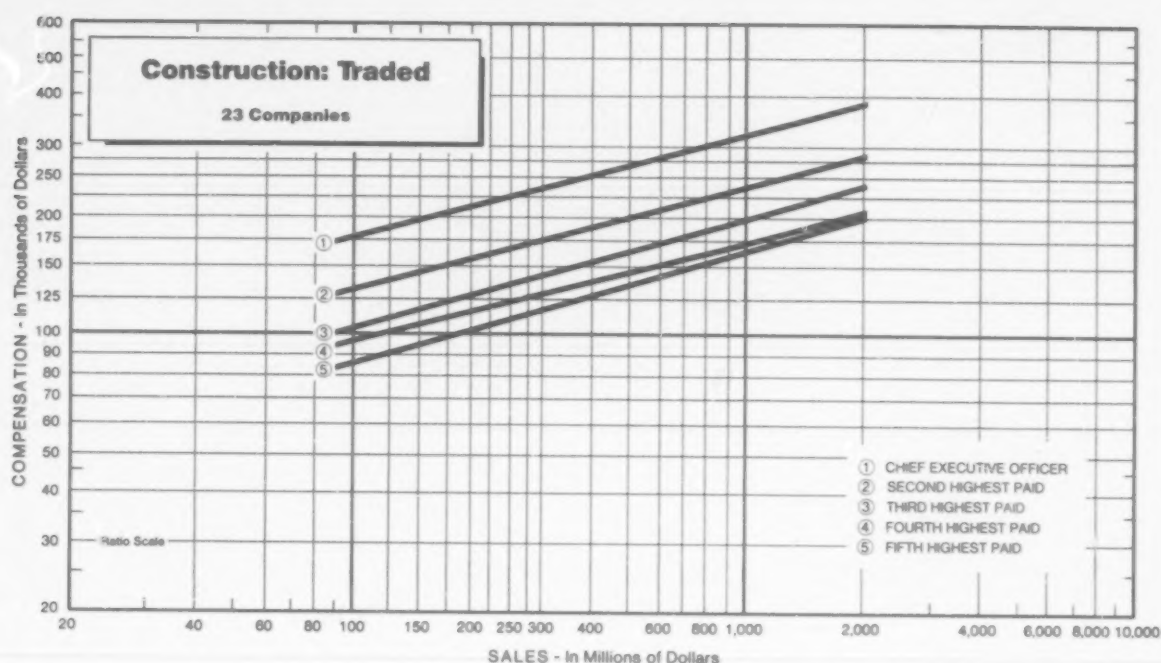
the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1984 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	\$208,000	\$150,000 to \$300,000
Second	152,000	100,000 to 216,000
Third	127,000	89,000 to 169,000
Fourth	109,000	82,000 to 155,000
Fifth	100,000	75,000 to 134,000

There is a positive relationship between the level of total compensation and sales volume, as the lines in Charts 38 and 39 indicate. However, the relationship is not very strong in the 44 closely held companies. As the coefficients of determination (r^2) below indicate, the variation in sales volume explains only 12 percent of the variation in total compensation for chief executives and, at most, 29 percent for the other four executives.

Compensation Rank	Regression Formula	r^2
Highest paid	$\log Y = 1.9051 + 0.1840 \log X$	12%
Second	$\log Y = 1.6842 + 0.2153 \log X$	19
Third	$\log Y = 1.6850 + 0.1823 \log X$	16
Fourth	$\log Y = 1.6287 + 0.1818 \log X$	17
Fifth	$\log Y = 1.4702 + 0.2301 \log X$	29

Chart 38: Compensation of the Five Highest Paid Executives, by Company Sales



The regression equations for executives in 23 companies whose stock is publicly held is shown below. As the coefficients of determination indicate, sales explains a much higher proportion of this variation in total compensation than for closely held contractors.³

Compensation Rank	Regression Formula	r ²
Highest paid ..	$\log Y = 1.7101 + 0.2642 \log X$	28%
Second	$\log Y = 1.6204 + 0.2508 \log X$	29
Third	$\log Y = 1.4715 + 0.2731 \log X$	38
Fourth	$\log Y = 1.5027 + 0.2459 \log X$	32
Fifth	$\log Y = 1.3619 + 0.2818 \log X$	48

The ratio of the total compensation of each executive to the total compensation of the chief executive officer is shown below:

³The regression equations for the five executives when all companies are combined are shown below; the percent in parentheses is the coefficient of determination.

Highest paid	$\log Y = 1.7758 + 0.2374 \log X$	(26%)
Second	$\log Y = 1.5168 + 0.2918 \log X$	(47%)
Third	$\log Y = 1.5199 + 0.2549 \log X$	(41%)
Fourth	$\log Y = 1.3955 + 0.2794 \log X$	(47%)
Fifth	$\log Y = 1.3493 + 0.2802 \log X$	(47%)

In each case, Y is total compensation stated in *thousands* of dollars; and X is sales volume stated in *millions* of dollars.

Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	77%	58% to 89%
Third highest	61	50 to 74
Fourth highest	55	46 to 67
Fifth highest	47	40 to 58

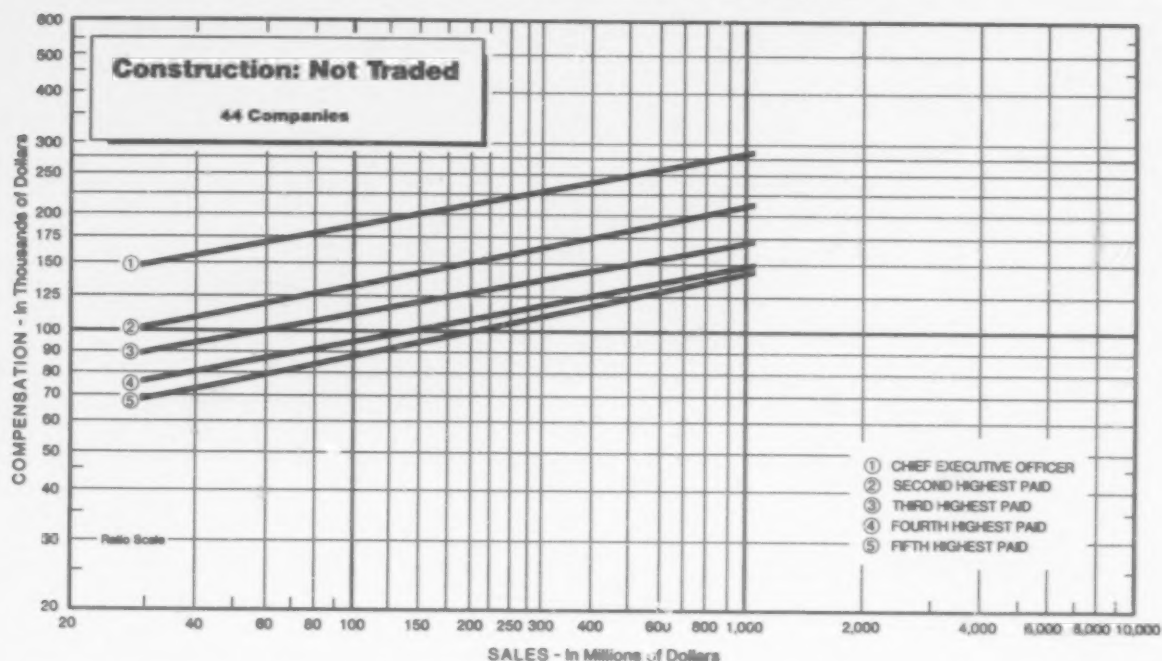
These ratios are essentially the same among publicly held contractors and those whose stock is not traded.

1984 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for executives in the 23 companies whose stock is publicly held is shown below. As the coefficients of determination (r^2) indicate, variation in sales volume statistically explains 15 to 54 percent of the variation in base salary.

Compensation Rank	Regression Formula	r ²
Highest paid ..	$\log Y = 1.9116 + 0.1477 \log X$	15%
Second	$\log Y = 1.7215 + 0.1795 \log X$	25
Third	$\log Y = 1.6147 + 0.1907 \log X$	28
Fourth	$\log Y = 1.6223 + 0.1747 \log X$	23
Fifth	$\log Y = 1.4371 + 0.2237 \log X$	54

Chart 39: Compensation of the Five Highest Paid Executives, by Company Sales



The regression equations for the executives in the 44 companies whose stock is not traded are shown below. The coefficients of determination indicate that the variation in sales volume statistically explains, at most, 47 percent of the variation in salary and, for the chief executive officer, 25 percent.⁴

Compensation Rank	Regression Formula	r ²
Highest paid ..	$\log Y = 1.6541 + 0.2391 \log X$	25%
Second	$\log Y = 1.4392 + 0.2687 \log X$	38
Third	$\log Y = 1.4191 + 0.2501 \log X$	36
Fourth	$\log Y = 1.3502 + 0.2595 \log X$	47
Fifth	$\log Y = 1.3234 + 0.2537 \log X$	44

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

⁴The regression equations for the five executives when all companies are combined are shown below; the percent in the parentheses is the coefficient of determination.

Highest paid	$\log Y = 1.6664 + 0.2373 \log X$	(30%)
Second	$\log Y = 1.4743 + 0.2664 \log X$	(45%)
Third	$\log Y = 1.4618 + 0.2413 \log X$	(40%)
Fourth	$\log Y = 1.3174 + 0.2767 \log X$	(51%)
Fifth	$\log Y = 1.2927 + 0.2723 \log X$	(53%)

In each case Y is total compensation stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Salary as a Percentage of Chief Executive's Salary

Compensation Rank	Median	Middle 50 Percent Range
Second highest	79%	61% to 89%
Third highest	66	51 to 76
Fourth highest	59	50 to 69
Fifth highest	53	46 to 62

These ratios are practically the same as the total compensation ratios.

1984 Bonus Awards

Sixty-one (91 percent) of the 67 construction companies have an annual executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. All but one publicly held contractors have a plan and all but five of the 44 privately owned firms. The high incidence of an annual bonus plan in this sector was apparent in 1978 when 82 percent reported a plan.⁵

Seventy-seven percent (47) of the 61 contractors with a bonus plan made an award for 1984 performance; only 67 percent (41) paid a bonus for 1983. Among the 47 plans that paid a 1984 bonus, most (39) also paid a 1983 bonus. Among 12 companies that paid no bonus for 1984, six paid a 1983 bonus; six paid no bonus in either year.

⁵Top Executive Compensation 1978 Edition, p. 77.

Table 12: 1984 Bonus Awards and 1983 Median Bonus

1984 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% or more	8	19%	5	11%	3	7%	2	4%	2	4
75-99	2	5	5	11	3	7	2	4	3	7
50-74	9	21	5	11	9	20	8	17	8	18
40-49	4	9	8	17	3	7	7	15	5	11
30-39	9	21	5	11	6	14	4	9	4	9
20-29	5	12	5	11	8	18	8	17	7	16
Less than 20%	6	14	13	28	12	27	15	33	16	36
Total	43	100%	46	100%	44	100%	46	100%	45	100%
Median Bonus		45%		35%		33%		30%		29%
Middle 50% Range		30-74%		20-71%		18-63%		16-53%		16-51%
1983 Median Bonus		43%		42%		35%		34%		30%

As Table 12 indicates, the median award for chief executive officers (45 percent of salary) is higher than that of the other four executives (29 to 35 percent of salary). Compared with bonus awards for 1983, the 1984 medians are somewhat lower except for chief executive officers.⁶

Long-term Incentive Plans

Four (17 percent) of the 23 contractors whose stock is traded have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. Six (30 percent) of 20 companies reported a plan five years ago.⁷

The three plans are in the 11 companies with sales of \$500 million or more. Two companies made a grant during 1984; the median award was the equivalent of 37 percent of 1984 salary.

Nine (13 percent) of the companies have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a **performance share or unit plan**.⁸ In 1980, six of 65 companies reported a plan.⁹

Two companies made a payment during 1984 to one or more of their five top-paid executives. The payments to nine

executives, converted to a percentage of salary, ranged from under one to 10 percent; the median payment represented four percent of 1984 salary.

Twelve (52 percent) of the 23 publicly held companies have a **stock option plan**.¹⁰ Six of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; four grant only ISO's; and two only nonqualified options.

Four of the 12 publicly held companies with a plan made a regular grant of stock options during 1984. One of the plans granted *only* ISO's; one *only* nonqualified options; and two granted *both* ISO's and nonqualified options. One of the two plans that granted both ISO's and nonqualified options, limited nonqualified options to those executives who hit the \$100,000 limit on ISO grants.

All of the four publicly held companies that granted options in 1984 provided information about the value of the options for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 14 executives is the equivalent of 34 percent of base salary, with the middle half ranging between 21 and 53 percent of 1984 base salary.

Stock-for-stock exercise (stock swaps) are provided for by eight of the ten plans that grant ISO's, and by five of the eight plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the ten plans that grant ISO's. All limit SAR's to a small group of top executives (essentially, "insiders"). SAR's are provided by three of the eight plans that grant nonqualified options. All limit SAR's to a small group of top management.

⁶Top Executive Compensation 1983 Edition, p. 66.

⁷Top Executive Compensation 1980 Edition, p. 65. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

⁸For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

⁹Top Executive Compensation 1980 Edition, p. 65.

¹⁰For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.